



# **Union Pacific Agreement Employee 401(k) Retirement Thrift Plan**

January 1, 2003  
(revised 04/15/2004)

It is your right and responsibility to learn as much as you can about the wide variety of Union Pacific benefits and how you can make the most of all that is available to you. Please retain a copy for use throughout the year.

# Table of Contents

	Page
Eligibility .....	4
Rollovers from Other Qualified Plans .....	4
Enrolling in the Plan .....	4
Contributions .....	4
Plan Investments.....	6
Changing Your Savings Rate or Investment Decisions .....	8
Confidentiality.....	9
Obtaining Information.....	10
Vesting in Your Account.....	10
Withdrawals .....	10
Final Payment from Your Account .....	13
Tax Considerations .....	13
Other Plan Information.....	14
Account Statements .....	15
Loss of Benefits .....	16
Plan Amendment and Termination.....	16
Benefit Claims .....	16

	Page
Your ERISA Rights .....	17
Resale Restrictions .....	18
Charges and Deductions.....	19
General Information.....	19
Incorporation of Certain Documents by Reference.....	20
Obtaining Additional Information.....	21
Attachment 1 .....	22
Exhibit A.....	23
Special Tax Notice.....	24

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

### **Building for the Future**

It is not always easy to save for the future. It is difficult to find the right place to set money aside for your retirement years. You want to invest so your money will work for you. The Union Pacific Agreement Employee 401(k) Plan (the "Plan") is a retirement savings program.

MANY SAVINGS PROGRAMS ARE AVAILABLE. You may already have a savings account at your bank or perhaps you have put money into an IRA. The Plan offers you a way to save with advantages not found elsewhere.

Participation in the Plan includes:

- Convenient payroll deductions so you won't have to remember to "pay yourself first" each pay period. Your savings automatically will be deposited in your Plan account.
- The choice of saving on either a before-tax or after-tax basis or both. If you save before-tax dollars, your current federal income taxes and (in most states) state and local income taxes will be reduced.
- Various investment funds for your account to help you meet your growth objectives. Taxes on all earnings are postponed as long as the money stays in the Plan.
- Limited withdrawal provisions before retirement. Within guidelines, a portion of your account may be available for shorter-term needs.
- The ability to change your savings level and investment choices so you can adjust your savings and investment elections as your circumstances or goals change.
- Lump sum cash and rollover options available upon final payment. Also, if your leave Union Pacific, you can maintain your account in the Plan until you reach age 70-1/2.

In short, the Plan is one of the most valuable components of your total benefits package. It is there to help you save for long-range financial goals, such as increasing retirement income. The remainder of this document gives you more information about the Plan, including examples to illustrate key points.

We have made every effort to describe the Plan in effect on January 1, 2003, clearly and accurately. Should there be a difference between the information in this brochure and the governing documents, plan documents have final authority. This guide is meant to serve as the summary plan description.

## **ELIGIBILITY**

Participation in the Plan is voluntary. You are a “covered employee” if you are an employee of the Company and a member of a participating union. You will become eligible to participate in the Plan on the first day of the month following one year from your original hire date, or the first date you become a covered employee, if later. If you terminate employment after becoming eligible to participate and later are rehired as a covered employee, you will again become eligible to participate on your rehire date.

Example: Suppose you are hired on March 15, 2002. One year from your original hire date would be March 14, 2003 and you become eligible to participate in the plan on April 1, 2003, if Plan participation has been extended to your union.

## **ROLLOVERS FROM OTHER QUALIFIED PLANS**

If you had an account in another qualified plan, certain deferred compensation plans of state and local governments (i.e., a “section 457 plan”) or an annuity contract described in section 403(b) of the Internal Revenue Code, you may be able to roll over money that has not been taxed as well as after-tax money in that plan to our Plan for investment, along with your savings. The plan does not accept rollovers from contributory IRA’s. The rollover may be accomplished in one of two ways:

1. Through a direct rollover in which your prior employer’s plan transfers the rolled over amount directly to the Plan; or
2. By your contributing all or part of the distribution paid to you within 60 days after you receive payment from your prior employer’s plan. If you temporarily put your payment into a conduit or rollover IRA, you also may roll over the money into our Plan from your conduit IRA (within 60 days of receiving payment from your conduit IRA).

Contact Vanguard directly to initiate a rollover. Call **Vanguard® Participant Services** or the **24-hour Vanguard VOICE® Network** by dialing **1-800-523-1188** or if you have a computer and a modem, Vanguard’s website at **www.vanguard.com**.

## **ENROLLING IN THE PLAN**

Newly eligible employees will receive a plan enrollment packet from Vanguard. To participate in the Plan, you must contact The Vanguard Group. Your enrollment will be effective as soon as administratively practicable after the date the Plan receives your properly completed enrollment request, but not earlier than the first day of the month following one year from your original hire date. You will need to indicate the amount you want to save each pay period and how you want your contributions invested.

## **CONTRIBUTIONS**

### **Contribution Elections**

Once you become eligible to participate, you may authorize the Company to withhold any whole percentage of your eligible pay each pay period, from 2% to 50%, for contribution to the Plan as Before-Tax Contributions. In addition, you may elect to have the Company deduct any whole percentage of your eligible pay each pay period, from 1% to 50%, for contribution to the Plan as After-Tax Contributions. Your combined Before-Tax and After-Tax Contribution elections (your Contribution election) may not exceed 50% of your pay for any pay period. Your Contribution election will not apply to pay received for any pay period in which you are inactive for a reason other than leave of absence, hurt board or furlough.

## **Pay**

For Plan purposes, your "pay" means your W-2 compensation from covered employment (including any productivity fund payment) paid while your Contribution election is in effect, excluding expense allowances or reimbursements, amounts realized from the exercise of a nonqualified stock option, amounts realized when restricted stock vests, separation payments and payments of vacation in lieu and sick pay in lieu. Your pay is calculated before reduction by your Before-Tax Contributions, Catch-Up Contributions or pre-tax contributions under a qualified transportation fringe benefit plan. Further, if you are covered by the Railroad National Cafeteria Plan ("NCP"), your pay excludes any opt-out bonus you may receive under the NCP and includes any amount you elected to defer under the NCP or could have elected to defer under the NCP if you had medical coverage under a plan unrelated to your employment with the Company. Federal law limits the amount of pay that may be taken into account in any Plan Year. This limit is periodically adjusted for inflation and is \$200,000 in 2003.

## **Limits**

You will not be permitted to contribute more in Before-Tax Contributions for any year than the amount permitted by federal tax law. In 2003, this amount is \$12,000. This limit is adjusted periodically for inflation. If your Before-Tax Contributions under the Plan exceed this limit in any year, your Before-Tax Contributions automatically become After-Tax Contributions. Additionally, if your Before-Tax Contributions under the Plan, plus your Before-Tax contributions under any other plan, exceed this limit in any year, you may request that all or part of the excess amount (with earnings) be paid to you from the Plan. Such a request must be made to the Plan Administrator in writing no later than March 1 following the calendar year in which the excess contributions were made.

## **Before-Tax Savings:**

One of the biggest advantages of the Plan is the ability to save before-tax dollars. Before-tax dollars are contributed to the Plan before federal income taxes (other than Social Security or Railroad Retirement taxes) are withheld. In most states, state and local income taxes will not be withheld. These taxes are postponed as long as the before-tax dollars contributed on your behalf and earnings on those dollars stay in your account.

For example, if you earn \$30,000 a year and want to save 6 percent of your pay (or \$1,800) in the Plan (assuming you're in the 28 percent tax bracket), federal income taxes on your savings would be \$504 (28 percent x \$1,800). If you contribute on a before-tax basis, you'll enjoy a \$504 savings in current taxes.

## **After-Tax Savings:**

You pay current-year taxes on after-tax savings. However, earnings on after-tax savings are tax-deferred until they are withdrawn and you'll be able to withdraw after-tax money from your account more easily than before-tax contributions. You will not be taxed on your after-tax contributions when withdrawn.

## **Catch Up Contributions:**

An open enrollment period will be held prior to the beginning of each new Plan Year (calendar year) during which participants who are, or will be, age 50 prior to the end of the next Plan Year, may elect to make catch-up contributions for the next Plan Year. The open enrollment period for persons first becoming eligible to participate in the Plan during a Plan Year will occur during a period of 60 days following their initial eligibility date.

A catch-up contribution is a before-tax contribution that can be contributed to the Plan, even if such contribution when added to other before-tax contributions made by the employee for the same Plan Year otherwise exceeds the annual maximum amount of pre-tax contributions that the IRS allows the Plan to accept for the participant. The maximum amount of pre-tax contributions that can be contributed to the Plan for 2003 is \$12,000 per participant. In addition, a participant who is eligible to make catch-up contributions can contribute up to another \$2,000 to the Plan on a pre-tax basis, provided the person is eligible to participate in the Plan for the entire Plan Year. Both the limit on pre-tax contributions and catch-up contributions will increase over time. You will be notified of any changes in these limits as they occur.

Catch-up contributions are taken from pay each payroll period. When making a catch-up contribution election, an employee will specify, within a prescribed range, the dollar amount to be contributed each pay period. Once an election is made, it can be stopped, but not otherwise changed, during the Plan Year for which it is effective. For purposes under the Plan, a catch-up contribution is treated the same way as a participant's before-tax contribution.

## **PLAN INVESTMENTS**

The Plan offers investment fund alternatives for your consideration. You generally can divide your total contributions and the company matching contributions among any or all of the funds available. The investment "mix" decision is yours; however, the minimum that may be directed to a fund is 1% of the total of your contributions. You may make a separate investment election for any rollover contributions made to the Plan.

In general, earnings on your investments, including dividends (if any) on Union Pacific common stock ("Company Stock") held in your account, are reinvested in the funds in which they are based. No taxes are due on any earnings as long as the earnings stay in the Plan. The Trustee (see General Information), in its discretion, may make short-term investments pending ultimate investment of contributions in the funds designated by participants.

Vanguard Fiduciary Trust Company is the investment manager for the Union Pacific Common Stock Fund and the Union Pacific Fixed Income Fund.

Your account will be valued on a daily basis. Access to the value of your account in total and by each investment option is available by, calling **Vanguard® Participant Services** or the **24-hour Vanguard VOICE® Network** at **1-800-523-1188** or if you have a computer and a modem, Vanguard's website at **www.vanguard.com**. Quarterly participant statements are also sent to each plan participant.

### **Available Investment Funds:**

Listed below are the investment fund alternatives available under the Plan and their general characteristics. The funds are separated into two investment strategies: LifeStrategy Funds (a pre-mixed investment approach) and Core Funds (a do-it-yourself investment approach). Please refer to Exhibit A at the end of this booklet for a summary of the investment performance of these funds or for the most current information, call **Vanguard® Participant Services** or the **24-hour Vanguard VOICE® Network** at **1-800-523-1188** or if you have a computer and a modem, access Vanguard's website at **www.vanguard.com**.

#### **LifeStrategy® Funds - The Pre-mixed Investment Approach:**

<b><u>Investment Alternatives</u></b>	<b><u>Type of Investment</u></b>	<b><u>Type of Earnings</u></b>	<b><u>Degree of Risk</u></b>
Vanguard® LifeStrategy® Income Fund	Balanced (stocks and bonds) by investing in four Vanguard funds	High level of income	Low to Moderate
Vanguard® LifeStrategy® Conservative Growth Fund	Balanced (stocks and bonds) by investing in five Vanguard funds	High level of income and moderate long-term growth of capital and income	Moderate
Vanguard® LifeStrategy® Moderate Growth Fund	Balanced (stocks and bonds) by investing in four Vanguard funds	Reasonable level of income and long-term growth of capital and income	Moderate
Vanguard® LifeStrategy® Growth Fund	Balanced (stocks and bonds) by investing in four Vanguard funds	Long-term growth of capital and income	Moderate to High

**Core Funds - The Do-It-Yourself Investment Approach:**

<b><u>Investment Alternatives</u></b>	<b><u>Type of Investment</u></b>	<b><u>Type of Earnings</u></b>	<b><u>Degree of Risk</u></b>
Vanguard® Prime Money Market Fund	Money Market Fund (cash reserves)	Varying level of income based on current interest rates	Low
Union Pacific Fixed Income Fund	Fixed Income Fund (stable value)	Varying level of income based on current interest rates	Low
Vanguard® Total Bond Market Index Fund	Bond Fund (bonds)	Reasonable level of income that varies with interest rate movements	Low to Moderate
Vanguard® Wellington Fund	Balanced Fund (stocks and bonds)	Current income and moderate capital growth	Moderate
Vanguard® Windsor II Fund	Growth and Income Fund (stocks)	Long-term growth of capital and income from dividends	Moderate to High
Vanguard® 500 Index Fund	Growth and Income Fund (stocks)	Capital growth and reasonable current income	Moderate to High
Vanguard® Total Stock Market Index Fund	Growth and Income Fund (stocks)	Long-term growth of capital and income from stock investments	Moderate to High
Vanguard® U.S. Growth Fund	Growth Fund (stocks)	Primarily capital growth—minimal current income	Moderate to High
Vanguard® Mid-Cap Index Fund	Growth Fund (stocks)	Long-term growth of capital	High
Vanguard® Small-Cap Index Fund	Growth Fund (stocks)	Long-term growth of capital	High
Vanguard® International Growth Fund	International Stock Fund (stocks)	Primarily capital growth	High
Union Pacific Corporation Common Stock Fund	Company Stock Fund (stock)	Capital growth	High

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Shares of Company Stock are purchased for the Union Pacific Common Stock Fund on the open market or privately at prices not in excess of the market price at the time of purchase. Cash balances in the Union Pacific Common Stock Fund, including the interim investment thereof, are limited to the amount necessary for administrative purposes.

You have the right to direct the Trustee as to the exercise of voting rights with respect to the Company Stock, including fractional shares, allocated to your account. As soon as practicable prior to the occasion for the exercise of such voting rights, the Trustee shall deliver or cause to be delivered to each Plan Participant all notices, prospectuses, financial statements, proxies and proxy soliciting material relating to the Company Stock allocated to the participant's account. Any shares of Company Stock for which the Trustee receives no instructions and, unless otherwise required by law, unallocated shares shall be voted by the Trustee in the same proportion that the shares are voted for which the Trustee received instructions.

If a tender offer is made for any shares of Company Stock held in the Plan, the Trustee shall request your instructions, and you may direct the Trustee as to how to respond to the tender offer in connection with the shares of Company Stock allocated to your account. Unless otherwise required by law, the Trustee will not tender unallocated shares or shares for the accounts of participants who fail to give instructions.

Shares of mutual funds offered by The Vanguard Group, Inc. (the "Vanguard Funds") allocated to your account shall be voted or tendered by the Trustee in accordance with written instructions furnished by you. The Trustee shall deliver to you all notices, proxies and proxy-soliciting materials related to the shares of the Vanguard Funds allocated to your account. Unless otherwise required by law, any shares, including fractional shares, for which voting or tender instructions are not received shall not be voted or tendered.

### **Your Investment Goals:**

No one within the Company may advise you on investments. The Plan is intended to be a plan described in section 404(c) of the Employee Retirement Income Security Act of 1974 ("ERISA") and Title 29 of the Code of Federal Regulations Section 2550.404c-1. Thus, Union Pacific Corporation, the participating subsidiary by which you are employed, the Trustee, the Plan Administrator and other fiduciaries of the Plan may be relieved of liability for any losses which are the direct and necessary result of investment instructions given by the Participant or beneficiary.

Remember, all investments have a degree of risk. You will need to weigh potential risks against investment objectives to decide which fund or funds are best for you. Vanguard can provide more information regarding the available investment alternatives and related fees, if any, that may be charged in connection with administering your investment election.

## **CHANGING YOUR SAVINGS RATE OR INVESTMENT DECISION(S)**

When you initially participate in the Plan, you will need to make decisions about your savings rate, whether or not you want to save before-tax or after-tax dollars or a combination, and how your account will be invested. However, as time passes, your circumstances and goals may change so that your original elections may not continue to meet your savings and investment needs. An important advantage of the Plan is its flexibility to meet your changing needs.

### **Changes You May Make:**

If you are making a catch-up contribution, the only change you may make during the Plan Year is to discontinue the contribution. Otherwise, you can increase or decrease your savings rate, discontinue either your before-tax savings, after-tax savings, or both, or change the type of money you are saving (before-tax or after-tax) at any time (subject to the discussion below under "When Your Contribution Changes Become Effective").

In general, you can change your investment choices on a daily basis (i.e., each day the New York Stock Exchange is open for business), including moving money in your account between investment funds and making different investment decisions for future contributions. However, you should be aware that unusual circumstances could prevent you from obtaining prompt access to the automated systems through which daily investment changes are effected. For example, an unusually large volume of investment changes might temporarily overwhelm a system; similarly, communications might be disrupted by forces of nature or by other uncontrollable events.

Transfers from one fund to another fund or funds must be made in one percent (1%) increments or in flat dollar amounts. You may transfer investments among the funds offered by the Plan. In most cases, if money is transferred out of the Union Pacific Common Stock Fund it will be valued at the closing price of the stock on the day it is transferred. However, in unusual circumstances, if the fund has to buy or sell stock on the open market to complete the day's transaction, you may receive a transaction price that reflects the actual price at which the fund traded shares. That price could be more or less than the closing price on the day you made the transaction. This is called Trading Impact. "Trading Impact" is the effect on the unit value of the Union Pacific Common Stock Fund when the fund has to buy or sell Union Pacific stock shares at prices that vary from the stock's closing price on the day participants requested the transactions. This can happen when participant transactions deplete the fund's cash reserves, making it necessary to buy or sell shares on the open market.

When moving money from the Union Pacific Fixed Income Fund to Vanguard's Prime Money Market Fund the money moved from the Fixed Income Fund must be invested in another non-competing available fund for a period of 90 days before it is invested in the Vanguard Prime Money Market Fund.

In addition, Vanguard imposes trading restrictions on participants who exchange directly in and out of a particular Vanguard Fund more than four times during any 12-month period. The Vanguard Prime Money Market, UP Fixed Income, and UP Company Stock funds are excluded from the excessive trading policy. Once a participant has been identified as having 4 round trips in a 12 month period, they receive a warning letter which states that any additional trading activity will result in the requirement that all future exchanges must be requested via a written request for a period of up to 12 months.

In the event of an acquisition, merger, or other material transaction, certain participants with knowledge of the transaction may be notified by the Plan Administrator that their activity relating to the Union Pacific Common Stock Fund will be restricted.

**When Your Contribution Changes Become Effective:**

Changes of your before-tax and/or after-tax contributions (i.e., change in savings rate, discontinuance or change in type of money) from your pay to the Plan will be effective as soon as administratively practicable after the date the Plan receives your properly completed request.

**When Your Investment Elections And Interfund Transfers Become Effective:**

Changes to investment elections will become effective on the next business day after the change is requested. Interfund transfers, if made prior to 4:00 p.m. Eastern Time, will be effective the day the change is made based on that day's closing price (subject to potential Trading Impact on Union Pacific Common Stock ). After 4:00 p.m. Eastern Time, the transfer will be effective the next business day at that day's closing price (subject to potential Trading Impact on Union Pacific Common Stock). Please note that investment election changes and interfund transfers must be transacted directly with Vanguard. You may initiate an investment change or interfund transfer by calling **Vanguard® Participant Services** or the **24-hour Vanguard VOICE® Network** at **1-800-523-1188** or if you have a computer and a modem, Vanguard's website at **www.vanguard.com**. As explained above, unusual circumstances, such as a large volume of investment changes, forces of nature, or other uncontrollable events, could prevent you from obtaining prompt access to Vanguard. You will receive a written confirmation of your transaction from Vanguard in approximately 7-10 business days.

**CONFIDENTIALITY**

Information about your participation in the Union Pacific Common Stock Fund will be kept confidential. The Plan has assigned to the Plan Administrator (Senior Vice President-Human Resources, Union Pacific Corporation, 1416 Dodge Street, Omaha, NE 68179, telephone (402) 271-5000) the responsibility for establishing and monitoring confidentiality procedures. (A copy of these procedures is found in Attachment 1.) Further, an independent fiduciary will be appointed by the Plan Administrator to monitor compliance with the confidentiality procedure should a situation arise involving the potential for undue influence by the Company to exercise your voting, tender or similar rights in a particular way (e.g., proxy contest, tender offer, etc.).

## OBTAINING INFORMATION

Call **Vanguard® Participant Services** or the **24-hour Vanguard VOICE® Network** at **1-800-523-1188** or if you have a computer and a modem, Vanguard's website at **www.vanguard.com**. Vanguard, acting on behalf of the Plan Administrator (Senior Vice President-Human Resources, Union Pacific Corporation, 1416 Dodge Street, Omaha, NE 68179), will also provide to you the following information upon request:

1. **Operating Expenses** A narrative description of the annual operating expenses of each investment fund (including, for example, investment management fees, administrative fees, and transaction costs) which reduce the rate of return to you, and the aggregate amount of such expenses expressed as a percentage of average net assets of the investment fund;
2. **Prospectuses and Financial Reports** Copies of any prospectuses, financial statements and reports, and any other materials relating to the investment funds, to the extent such information is provided to the Plan;
3. **Listing of Assets** A list of the assets comprising the portfolio of each investment fund which constitute plan assets under Department of Labor regulations, the value of each such asset (or the proportion of the investment fund which it comprises), and, with respect to each fixed rate investment contract (e.g., Guaranteed Investment Contracts (GICs)) issued by a bank, savings and loan association, or insurance company, the name of the issuer of the contract, the term of the contract and the rate of return on the contract;
4. **Performance Information** The value of shares/units in each investment fund, as well as the past and current investment performance of each fund, determined, net of expenses, on a reasonable and consistent basis; and
5. **Individual Account Information** The value of shares/units in designated investment funds allocated to your account.

## VESTING IN YOUR ACCOUNT

Vesting is the process by which you gain ownership rights to the value of your Plan account. You are always 100% vested in the value of your total account under the plan.

## WITHDRAWALS

The main purpose of the Plan is to help you build an account for long-term financial needs, such as a supplement to Social Security or Railroad Retirement. The Plan permits limited withdrawals for short-term financial needs, but only within the guidelines described in this section.

Remember, your Plan account is not a passbook savings account. Withdrawals are subject to certain restrictions and possible penalties imposed by the Internal Revenue Code. For example, you must wait at least 30 days from the date you apply for your withdrawal to receive a check (to give you time to consider a rollover), unless you waive the 30-day requirement. You should also read the text following the "Taxes in General" heading at the end of this section.

There are four kinds of withdrawals: after-tax withdrawals, rollover withdrawals, age 59 ½ withdrawals and hardship withdrawals. Contact Vanguard directly to request a withdrawal. Call **Vanguard® Participant Services** or the **24-hour Vanguard VOICE® Network** by dialing **1-800-523-1188**.

**Regular Withdrawals:**

Non-hardship withdrawals may be made for any reason and are available to both active and former employees. These withdrawals are paid in cash.

**After-Tax Withdrawals:** You may make withdrawals from you After-Tax Contributions and earnings on After-tax contributions at any time for any reason. Upon withdrawal, earnings on After-Tax contributions are taxed as ordinary income.

**Rollover Withdrawals:** A rollover account contains contributions and earnings rolled over from a previous employer's plan. As an active or terminated participant you may withdraw any amount at any time from your rollover account. Upon withdrawal, earnings on after-tax rollover contributions are taxed as ordinary income. After your after-tax rollover account is exhausted, you may withdraw from your before-tax rollover account. These withdrawals are taxable as ordinary income.

**Withdrawals After Age 59 ½:** Once you reach age 59-1/2, you may make unlimited withdrawals up to the full balance of your plan account in the following order: first, after-tax contributions and earnings thereon, then after-tax rollover contributions and earnings thereon, next before-tax rollover contributions and earnings thereon, finally, before-tax contributions and earnings thereon. All withdrawals are taken from your investments on a pro rata basis. For tax information on non-hardship withdrawals, see "Taxes in General" heading at the end of this section.

**Hardship Withdrawals:**

While you are actively employed, you may request a hardship withdrawal if you have an immediate and heavy financial need, as determined by the Plan Administrator, and a hardship withdrawal is necessary to satisfy the need. Hardship withdrawals are payable only in cash. Shares of Company Stock subject to a hardship withdrawal must be liquidated. Hardship withdrawals are not available to former employees. You may only withdraw the amount necessary to satisfy your need. **You may make one hardship withdrawal per calendar year.**

Regardless of your current age, the amount available to you for a hardship withdrawal and the order in which your accounts will be distributed are the same as the amount available and distribution order under a non-hardship withdrawal after age 59-1/2 (as outlined above). If you have not reached age 59-1/2, the total withdrawals from your before-tax contribution account may not exceed the cumulative total of your before-tax contributions for all years, but not the earnings on those contributions.

You will owe income tax on all amounts other than after-tax contributions and after-tax rollover contributions paid to you in a hardship withdrawal.

**Definition of Hardship:**

The Plan Administrator has discretion to determine, on the basis of all relevant facts and circumstances, whether a requested withdrawal is on account of, and necessary to satisfy, a hardship. The Plan defines hardship as an immediate and heavy financial need. A distribution is deemed to be on account of a hardship if it is based on one of the following conditions:

- Medical expenses for you or your dependent family members that are not covered by insurance or other health care arrangements;
- Expenses connected with the purchase of your home (your principal residence), excluding mortgage payments;
- Expenses to prevent eviction from your home (principal residence) or having your mortgage foreclosed; and
- Payment in advance for tuition, on campus room and board and related educational fees for schooling past high school over the next 12 months, for you or your dependents.

Your account will be valued using the most recent information available to determine how much you can withdraw. The amount of the withdrawal cannot exceed what is needed to meet the hardship, but may include amounts necessary to pay federal and state income taxes resulting from the withdrawal. You must produce evidence substantiating your request for a hardship withdrawal. You can not pay back a withdrawal.

### **Additional Hardship Withdrawal Requirements:**

To obtain a hardship withdrawal, you must certify in writing that you cannot satisfy your financial need through:

- Use of your savings;
- Reimbursement through insurance or otherwise;
- Liquidation of your (including your spouse's or children's) assets, such as stock or a vacation home, that you can reasonably liquidate without incurring further hardship;
- Increasing your take-home pay by suspending your contributions to the Plan or any other similar plan maintained by a Union Pacific company;
- Taking any non-hardship withdrawals from this plan or any other employer plans in which you or your spouse may have an interest; or
- Taking any loan available through any other employer plan in which you or your spouse may have an interest or borrowing from commercial sources on reasonable commercial terms (but only if so doing would not itself increase your financial need).

**If you receive a hardship withdrawal, you will not be permitted to make contributions under the Plan for the 12-month period following the withdrawal.**

### **Taxes in General:**

- If you receive any before-tax money (including before-tax savings, before-tax rollover contributions and any earnings) from a withdrawal before you reach age 59-1/2, you may owe a 10% tax penalty on that money in addition to ordinary income taxes. Exceptions to the 10% penalty applicable to the Plan include payments under a Qualified Domestic Relations Order, payments because of disability as defined in section 72(m)(7) of the Internal Revenue Code, payments that do not exceed certain medical expenses (i.e., those which you would be allowed to deduct on your federal income tax return, regardless of whether you do deduct them), payments made to your beneficiary or estate on or after your death, and payments received after terminating employment in any year in which you are at least age 55. The Internal Revenue Code imposes the tax penalty on distributions from plans such as this one to discourage withdrawals before employees reach retirement age. Payment of the 10% tax penalty is your responsibility. The Company will not withhold this tax on your behalf.

Cash distributions of before-tax money (including before-tax savings, before-tax rollover contributions and any earnings) resulting from all withdrawals, other than hardship withdrawals, are subject to income tax withholding from your withdrawal check at the rate of 20%. Hardship withdrawals are subject to 10% withholding unless the participant elects no withholding on the hardship distribution. Although distributions that include Company Stock are also subject to 20% withholding, the net unrealized appreciation on Company Stock (the excess of the fair market value of the stock at the time of distribution over the initial cost to the Trustee) is excluded from withholding. Furthermore, the total amount withheld from any distribution which includes both cash and Company Stock, will not exceed the amount of cash included in the distribution. Thus, distributions consisting entirely of Company Stock are, as a practical matter, not subject to withholding. For all distributions, it is your responsibility to pay any taxes due that exceed the amount of tax withheld.

- You can avoid the 10% penalty and the 20% withholding requirement for the taxable portion of a withdrawal, other than a hardship withdrawal, by having the taxable portion of your withdrawal directly rolled over to an IRA or other qualified plan as described under the heading "Rollover to an IRA or Other Qualified Plan" in the Tax Considerations section.

## **FINAL PAYMENT FROM YOUR ACCOUNT**

You become eligible for final payment of your account when you retire or leave the Company. Your beneficiary becomes eligible for the balance of your vested account if you die before taking full payment.

A number of options are available for final payment of your vested account.

You can receive cash or whole shares of stock from your Union Pacific Common Stock Fund. If you do not request that your stock investments be paid in stock, payment will be made in cash. Payments from the other funds are made in cash only. Cash and stock payments can be requested in a lump sum only. A payment to your beneficiary will be made in a lump sum only, as soon as practicable following your death.

If you are eligible for a final payment from your account, you may defer your distribution until the April 1 following the year in which you reach age 70-1/2. Before that date, no distribution will begin without your written consent.

If you leave your money in your account, thereby postponing payment, you still can change the investments of your accounts or apply for withdrawals, other than hardship withdrawals. You'll also receive regular account statements.

### **Final Valuation of Your Account:**

If you leave the Company, your account then will be valued using the most recent information available. For tax purposes, investments in the Union Pacific Common Stock Fund will be valued as of the date the Company Stock is removed from the trust, assuming you requested the distribution in Company Stock. If you receive payments in cash, the shares will be valued at the closing price on the day in which your final distribution is processed (subject to potential Trading Impact on Company Stock).

If you postpone final distribution of your account until age 70-1/2, it will be valued as of the valuation date when the distribution takes place. Accounts must be distributed by the April 1st following the later of the calendar year in which you attain age 70-1/2, or the calendar year in which you separate from service.

## **TAX CONSIDERATIONS**

No one at the Company may give you tax advice. You are urged to check with your qualified personal tax advisor to determine the answers to tax questions that relate to your particular situation. Before you decide how and when you want to take payment of your account, discuss the different tax treatments available. The following summary of federal tax consequences is for your general information only and reflects the applicable tax treatment as of June 30, 2003. Any state or local tax consequences depend on applicable state or local law.

### **Taxation Upon Distribution:**

Your before-tax savings allocated to your account are not taxed as income in the year contributed. Likewise, earnings on your before-tax and after-tax savings are not taxed in the year earned. Taxes will be due on all contributions not previously taxed in your account when you take payment of your account. This includes before-tax savings, your before-tax rollover contributions and all earnings in your account.

### **Early Distribution Penalty:**

Distributions from the Plan are taxed as ordinary income in the year you receive the money. The 10% tax penalty described under the Withdrawals section does not apply to final payments from your account if you terminate employment in any year that you are at least age 55, if you have attained age 59-1/2, or after you become disabled or die. However, if you leave the Company before the year you attain age 55 and take payment of your account before age 59-1/2, and no other exceptions apply, the 10% tax penalty will apply unless you roll over the proceeds as described below.

**Tax Averaging:**

If you were at least age 50 before January 1, 1986, you may want to consider 10-year averaging at 1986 tax rates. Taxes usually are lower under the tax averaging method than if your payments were taxed as ordinary income. You can use the 10-year tax averaging method only once.

**Rollover to an IRA or Other Qualified Plan:**

If you want to postpone taxes even longer and avoid the 10% penalty, you can roll a distribution from your account balance (other than , a minimum required distribution or a hardship withdrawal ) into an Individual Retirement Account (IRA) or into your new employer's qualified plan, if that plan accepts rollovers. Rollovers must be completed within 60 days from the date you receive the check or stock certificate. You can roll over a portion or all of the money in your rollover eligible distribution including your after tax contributions if the receiving plan or institution accepts such rollovers.

Alternatively, you may request that all or part of any distribution you will receive from the Plan (other than, a minimum required distribution or a hardship withdrawal) be rolled directly from the Plan to the trustee or custodian of an eligible retirement plan. For this purpose, an "eligible retirement plan" includes an IRA and your new employer's qualified plan, certain deferred compensation plans of state and local governments (i.e., a "section 457 plan") or an annuity contract described in section 403(b) of the Internal Revenue Code if that arrangement accepts rollovers. If you receive a taxable distribution from the Plan (other than, a minimum required distribution, or a hardship withdrawal) that is not transferred directly to an eligible retirement plan, federal law requires the automatic withholding of 20% of the taxable distribution as federal income taxes. You are not permitted to elect not to have tax withheld on such a distribution.

**Net Unrealized Appreciation:**

The net unrealized appreciation on the Company Stock (the excess of the fair market value of the stock at the time of distribution over the initial cost to the Trustee) which is distributed in a lump sum will not be taxed at the time the shares are distributed, but will be taxed only on a subsequent sale or exchange. At that time, any gain up to the amount of unrealized appreciation at the date of distribution will be treated as capital gain attributable to an asset held for more than one year, regardless of how long the shares were held by the Plan. The maximum tax rate applicable to such capital gains is 15%. Similarly, the net unrealized appreciation attributable to Company Stock purchased with after-tax savings will not be taxed at the time the shares are distributed, even when distributed other than as part of a lump sum. Unrealized appreciation treatment may be waived and the full amount included in ordinary income in the year of distribution. Any further appreciation accruing while you hold distributed shares is treated as a gain subject to tax when the stock is sold or exchanged in a taxable transaction.

**Employment Taxes:**

For purposes of Railroad Retirement ("RRT") taxes or the Federal Insurance Contributions Act ("FICA") taxes, the amount of your taxable wages is determined without regard to your before-tax and after-tax contributions to the Plan. Your contributions to the Plan thus do not reduce your liability for RRT or FICA taxes. Distributions from the Plan, however, are not included in your taxable RRT or FICA wages.

**OTHER PLAN INFORMATION**

In this section you'll find additional Plan information of which you should be aware.

**Changes in Employment Status:**

If you become ineligible to continue participation in the Plan while remaining employed by the Company or no longer are covered by a participating collective bargaining unit, you will be considered an inactive participant in the Plan.

As an inactive participant in the Plan, you may:

- Transfer money presently in your account to other investment funds offered in the Plan; and
- Withdraw money from your account, according to the withdrawal provisions described earlier.

As an inactive participant in the Plan, you cannot:

- Add additional savings or make rollovers to the Plan; or
- Take final payment from your account before you leave the Company, become disabled or die.

### **Naming a Beneficiary:**

You may make a separate beneficiary designation for your account. To make or change your beneficiary designation contact Vanguard directly.

- **Death Before Benefits Begin.** If you are married, and you die before taking distribution of your Plan account, your spouse as of the date of your death automatically will be the beneficiary for your vested Plan account unless he or she has consented in writing to your naming someone else. Your spouse's consent must be witnessed by a notary public to be valid. The designation of your spouse as beneficiary is automatically revoked if your spouse dies before you do. Further, if you divorce your spouse after having designated him/her your beneficiary and you die after January 1, 2004, your designation of such person as your beneficiary is automatically revoked. If you die before January 1, 2004 while having designated your former spouse as your beneficiary, the Plan Administrator will determine based on the facts and circumstances if your former spouse remains your designated beneficiary.
- If you have no spouse as described above and you have not designated a beneficiary or all of your beneficiaries predecease you, any death benefit payable upon your death will be paid to your estate.
- Beneficiary designations for participants living on September 30, 2002 became void on October 10, 2002, provided that the letter notifying you of such action was not returned to the Plan as undeliverable. New beneficiary designations made by such participants are effective.

### **Qualified Domestic Relations Orders ("QDROs"):**

Under the terms of a qualified domestic relations order, certain payments could be made from the Plan to discharge the alimony, child support, or marital property rights of your spouse, former spouse, child or other dependent. With the exception of a QDRO or a federal tax levy, there are no other circumstances under which payments can be authorized from your account, except as specified in the Plan document and described in this plan guide. In addition, federal law provides that you may not borrow against the value of your account or assign your rights under the Plan as collateral for a loan or for any other purpose (except as provided by a QDRO). For information on preparation of QDROs, please call (402) 271-4930.

Participants and beneficiaries can obtain, without charge, a copy of the procedures used by the Plan Administrator in making QDRO determinations.

## **ACCOUNT STATEMENTS**

You will receive quarterly statements of your Plan account. Each statement will show all account activity since the last statement including contributions made to your account, exchanges of money between funds, gains/losses on investments for the current period and year to date, and funds in which you are currently investing.

## **LOSS OF BENEFITS**

You could lose all or part of your account, or payment of your benefits could be suspended, as follows:

- The value of your account could decrease because of investment losses;
- Your account may become subject to a QDRO or a federal tax levy; or
- You do not provide the Plan Administrator with your most recent address and you cannot be located;

## **PLAN AMENDMENT AND TERMINATION**

The Company reserves the right to amend, terminate or partially terminate the Plan at its discretion. However, no amendment will deprive you or your beneficiary of any right to which you or your beneficiary is entitled under the Plan with respect to your vested contributions, nor shall it provide for the use of assets of the Plan other than for the benefit of Plan participants and beneficiaries, except as may be allowed by law. As a matter of prudent business planning, the Company is continually reviewing and evaluating various proposals for changes in its benefit programs. Some of these proposals, if finally approved and implemented, might be more advantageous or less advantageous than the current programs. Because of the need for confidentiality, such decisions are not discussed or evaluated below the highest level of management. Any managers below such levels do not know whether the Company will or will not adopt any future benefit programs and are not in a position to speculate about future programs. Unless and until such changes are formally announced by the company, no one is authorized to give assurance that such changes will or will not occur.

If the Plan is terminated, all contributions to the Plan will stop and your account may be transferred to another plan in which you would be a participant, or distributed to you pursuant to the terms of the Plan.

## **BENEFIT CLAIMS**

### **Application for Benefits:**

Payment of your account will generally not begin until a properly completed request is received by the Plan Administrator or designated agent. However, the Plan will make payment without application under the following circumstances:

- The balance of your vested account will be paid to your beneficiary in a lump sum as soon as practicable following your death; or
- If you have separated from service and do not request payment by April 1 following the later of the year you reach age 70-1/2 or the year you separated from service, your account will automatically be paid to you as of that April 1.

### **Claims Procedure:**

The Plan Administrator will advise you of your benefits under the Plan. If you believe that the Plan Administrator has failed to advise you or to pay any benefit to which you are entitled, you may file a written claim with the Plan Administrator. The Plan Administrator will respond to your claim within a reasonable period of time, but not later than 90 days after the receipt of your claim unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, you will be given written notice of the extension prior to the termination of the initial 90 day period and will be notified of the special circumstances requiring an extension and the date by which a final decision will be reached. The date on which a final decision is made will not be later than 180 days after the date on which your claim was received. If you are denied a claim for benefits, the Plan Administrator will provide you with written notice setting forth in simple terms:

- The specific reason or reasons for the denial;
- Specific reference to the Plan provisions on which the denial is based;
- A description of any additional material needed so that a benefit may be paid and an explanation of why such material or information is necessary;
- Your right to receive upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to your claim;
- An explanation of the claim review procedure set forth below.
- Your right to bring a civil action under ERISA section 502(a) if your claim is denied on review.

Within 60 days of the date you receive a notice denying a claim, you or your duly authorized representative may request (in writing) a full review of the claim by the Plan Administrator. In connection with such review, you or your duly authorized representative may review relevant documents or receive copies free of charge and may submit issues and comments in writing. The Plan administrator will consider all information you submit which is relevant to your claim, regardless of whether the information was available when your claim was originally decided. Requests for review not properly filed within the above 60 day period will not be considered. The Plan Administrator will make a decision promptly, and not later than 60 days after receipt of the request for review, unless special circumstances (such as the need to hold a hearing, if appropriate) require an extension of time for processing. In that case, a decision will be rendered as soon as possible, but not later than 120 days after receipt of the request for review. However, if an extension of time is needed due to your failure to provide information necessary to decide a claim, the period for making a decision on review will be tolled from the date the Plan Administrator sends you written notice of the extension until the date on which you respond to the request for information, or such earlier date as the Plan Administrator determines in accordance with applicable law and related regulations. The decision on review will be in writing and will include:

- Specific reasons for the decision;
- References to the specific Plan provisions upon which the decision is based;
- A statement informing you that you are entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to your claim; and
- A statement of your right to bring an action under ERISA section 502 (a).

The Plan Administrator's decision on review is final and binding on all participants and beneficiaries for all purposes, and no participant or beneficiary has a right to seek review of a denial of benefits, or to bring any action in any court to enforce a claim for benefits prior to his filing a claim for benefits and exhausting his rights to review under the Plan.

## **YOUR ERISA RIGHTS**

The Plan is subject to the Employee Retirement Income Security Act ("ERISA"). As a Plan participant, you have certain rights and protections under ERISA. For example:

- You may examine free of charge all official documents related to the Plan. This includes insurance contracts and copies of reports filed with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration. You can examine copies of these documents in the Human Resources Department in Omaha or at your Company Headquarters if copies are kept there.
- Copies of the documents governing the operation of the Plan, including the latest summary annual report and updated Summary Plan Descriptions can be acquired by writing to the Plan Administrator. You may have to pay a reasonable photocopying charge.

- You will automatically receive a yearly summary of the Plan's financial reports, which the Plan Administrator is required by law to furnish to each Plan participant.
- Once a year, you can request a statement of your account, the amount of your account that is nonforfeitable (i.e., vested), and when your entire account will be nonforfeitable. The statement must be requested in writing and will be provided free of charge.

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries.

No one, including your employer or anyone else, may discharge or discriminate against you in a way that would prevent you from obtaining benefits under the Plan or exercising rights under ERISA.

If your claim for a benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, you can take steps to enforce your rights. For example, if you do not receive Plan materials within 30 days of a request, you may file suit in federal court. The court may require the Plan Administrator to provide the materials and pay you as much as \$110 per day until you receive them, unless they were not sent due to reason beyond the administrator's control. To ensure your request was not lost in the mail, call the Plan Administrator.

You may file suit in a state or federal court if your claim for benefits is totally or partially denied or ignored. In addition, if you disagree with the Plan's decision, or lack thereof, concerning the qualified status of a domestic relations order, you may file suit in federal court. However, before filing a lawsuit you must first exhaust all appeals required by the plan.

Should fiduciaries misuse the Plan's money, or you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor or file suit in federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person sued to pay costs and fees. If you lose (for example, if the court finds your claim frivolous), the court may order you to pay costs and fees.

If you have questions about your benefits, contact your Human Resources Department. If you have questions about your rights under ERISA or about this statement, or if you need assistance in obtaining documents from the Plan Administrator, contact the nearest area office of the Employee Benefits Security Administration, U. S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquires, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W. Washington, D.C., 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

## **RESALE RESTRICTIONS**

The Plan itself imposes no restrictions on the resale of shares of stock acquired under it. Participants who are "affiliates" of Union Pacific Corporation (within the meaning of the Securities Act of 1933), however, may sell shares of Company Stock acquired under the Plan only under an effective registration statement or pursuant to Rule 144 or some other exemption from registration. Participants under the Plan who may be considered "affiliates" of the Company should consult legal counsel when contemplating resales of shares of Company Stock acquired under the Plan to determine the applicability of restrictions on such resales under the federal securities laws.

## **CHARGES AND DEDUCTIONS**

Charges relating to the management of the investment funds, as well as other transaction fees, are charged to the Plan assets of such investment funds.

## **GENERAL INFORMATION**

### **Name and Type of Plan:**

The name of the plan described in this user guide is the Union Pacific Agreement Employee 401(k) Retirement Thrift Plan. The Plan is a defined contribution/profit sharing 401(k) plan that is intended to be qualified under section 401(a) of the Internal Revenue Code and its related trust is intended to be exempt under section 501(a) of the Code. As a defined contribution/profit sharing 401(k) plan, the Plan is not subject to the minimum funding requirements imposed by ERISA and the Code.

### **Plan Sponsor:**

The Plan Sponsor is Union Pacific Railroad Company, 1416 Dodge Street, Omaha, NE 68179.

### **Plan Sponsor Identification Number and Plan Number:**

The Plan Sponsor Identification Number assigned by the Internal Revenue Service to Union Pacific Railroad is 13-6400825. The plan number Union Pacific Corporation has assigned to this Plan is 003.

### **Plan Year:**

The Plan operates on a calendar year basis.

### **Plan Administration:**

To the extent provided in the Plan, the Company, the Plan's Investment Committee and the Senior Vice President-Human Resources of the Plan Sponsor have authority to administer the Plan, and each is a "named fiduciary" as such term is defined in ERISA. The Senior Vice President-Human Resources of the Plan Sponsor is the Plan's "Administrator" as that term is defined in ERISA and is referred to herein as the "Plan Administrator" or the "Named Fiduciary - Plan Administration."

The Company (acting through its Vice President – Labor Relations) appoints the Plan Administrator. The Company may appoint, remove and replace the Trustee and any investment manager(s) responsible for management of Plan assets. The Company is also responsible for monitoring, with the help of the Named Fiduciary – Plan Investments, the performance of the Trustee and any investment manager(s). The Company (acting through its Vice President – Labor Relations) may amend any agreement with the Trustee or any investment manager. The Named Fiduciary – Plan Investments is responsible for establishing a funding policy and method for the Plan and communicating them to the Trustee and any investment manager(s), selecting an independent certified public accountant to examine annual Plan financial statements, and determining the extent to which Plan expenses will be paid with Plan assets.

The Plan Administrator is responsible for all other matters relating to the administration of the Plan. The Plan Administrator has the authority, in his or her sole discretion, to interpret the Plan, to develop rules and regulations to carry out the provisions of the Plan, to make factual determinations, and to resolve questions relating to eligibility for and the amount of benefits. All interpretations, determinations, etc. made by the Plan Administrator pursuant to his or her authority shall be final and binding on the parties. The Plan Administrator also serves as the Plan's agent for the service of legal process.

The Plan Administrator is currently Barbara W. Schaefer, Senior Vice President-Human Resources, Union Pacific Corporation, 1416 Dodge Street, Omaha, NE 68179, 402/271-5000

**Plan Trustees:**

The Trustee of the Plan is Vanguard Fiduciary Trust Company, a subsidiary of The Vanguard Group Inc. (1-800-523-1188), whose address is PO Box 2600, Valley Forge, PA 19496. The Trustee's functions include the management of the Union Pacific Common Stock Fund, custody of the assets of participants' accounts, the investment of contributions made to the Plan on behalf of participants in accordance with participant investment directions, and voting and responding to tender offers with respect to Company Stock held in participants' accounts in accordance with instructions received from participants. Legal process may also be served on the Trustee.

**Total Registered Amount:**

The available investment funds include the Union Pacific Common Stock Fund that invests in Company Stock. The total value of Company Stock to be offered is \$200,000,000. (The Company may add to this value from time to time.) The value of your interest in the Union Pacific Common Stock Fund is subject to fluctuation in the market value of the Company Stock held in the Fund.

**Pension Benefit Guaranty Corporation (PBGC):**

The PBGC does not insure benefits payable from defined contribution plans (such as this Plan). Benefits from this Plan are determined by contributions to the Plan and investment activity of the investment funds.

**Participation Tests:**

The Plan must pass certain tests to retain favorable tax treatment permitted by qualification with Internal Revenue Code guidelines. These tests require a balance of participation among employees at all pay levels. The savings of highly paid participants may need to be reduced or recharacterized as catch-up contributions if the mix of participants does not fall within the guidelines. The Plan Administrator will notify any affected participants.

**Contribution Limits:**

In addition to the yearly Internal Revenue Code limit on before-tax savings, the Code imposes an overall yearly limit on all contributions to the Plan that can be made on your behalf. This limit currently is the lesser of \$40,000 or 100% of your total compensation.

**Top-Heavy Provisions:**

Under current federal tax laws, the Plan is required to contain provisions which will take effect if the Plan becomes "top-heavy." The Plan will be considered top-heavy if the value of the accounts for certain "key" employees exceeds 60% of the value of the accounts for all participants. If the Plan becomes top-heavy, a minimum contribution will be made for the benefit of each "non-key" employee who is eligible to participate in the Plan. The Plan Administrator will provide a more detailed explanation of these provisions if and when the Plan becomes top-heavy.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

Union Pacific Corporation incorporates herein by reference the following documents as filed with the Securities and Exchange Commission:

1. Annual Report on Form 10-K of Union Pacific Corporation as filed with the Securities and Exchange Commission for the most recent fiscal year;
2. All other reports filed by Union Pacific Corporation pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") since the end of the fiscal year covered by the Annual Report on Form 10-K referred to in (1) above; and
3. Description of the Company's Common Stock contained in the Company's Registration Statement on Form S-3 filed under File No. 1-6075, including all amendments or reports for the purpose of updating such description.

Any statement contained herein or in a document incorporated or deemed incorporated by reference herein shall be deemed to be modified or superseded for purposes of this user guide to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this user guide.

Union Pacific Corporation will provide without charge to each person participating in the Plan on the written or oral request of such person, a copy of any or all of the above documents incorporated in this Section 10(a) prospectus by reference (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into the documents that this user guide incorporates) and any and all other documents required to be delivered to each participant under Rule 428(b) of the Securities Act of 1933, including without limitation all reports, proxy statements and other communications distributed to stockholders of Union Pacific Corporation generally. Written or oral requests for the foregoing documents should be directed to: Union Pacific Corporation, 1416 Dodge Street, Omaha, NE 68179, Attention: Corporate Secretary (telephone: (402) 271-5777).

### **OBTAINING ADDITIONAL INFORMATION**

If you have questions about the operation of the Plan or your rights under the plan, please contact the Union Pacific Employee Benefits Department, 1700 Farnam Street, WT10N, Omaha, NE, 68102, (402) 271-4000.

## ATTACHMENT 1

### UNION PACIFIC AGREEMENT EMPLOYEE 401(K) RETIREMENT THRIFT PLAN

#### STATEMENT OF PROCEDURES CONCERNING CONFIDENTIALITY OF INFORMATION RELATING TO UNION PACIFIC COMMON STOCK FUND

WHEREAS, the Union Pacific Agreement Employee 401(k) Retirement Thrift Plan (the "Plan") assigns to the Named Fiduciary-Plan Administration the responsibility for establishing procedures (the "Procedures") designed to maintain the confidentiality of information relating to the purchase, holding and sale of Union Pacific common stock (the "Company Stock"), and the exercise of voting, tender and similar rights with regard to such Company Stock held by participants or beneficiaries (the "Information"); and

WHEREAS, the Named Fiduciary-Plan Administration desires to establish the Procedures pursuant to such assignment;

NOW, THEREFORE, the undersigned as Named Fiduciary-Plan Administration does hereby establish the following Procedures:

- I. **Survey.** A survey shall be undertaken to determine who currently has access to the Information and the reason(s) for such access.
- II. **Authorization.** Access to the Information shall be limited by me to such persons designated as representatives of the Plan (some of whom may be employees of Union Pacific Corporation) who need the Information to carry out the administration of the Plan. Such access shall be provided only pursuant to my written authorization, which sets forth the reason(s) access to the Information is necessary, the specific items of Information that may be obtained and the appropriate provisions for safeguarding the confidentiality of the Information, including but not limited to contractually obligating the recipient of the Information to limit its use to the stated purpose(s).
- III. **Restriction.** The Plan's Trustee, recordkeeper, and transfer agent and any other person with access to any or all of the Information shall be notified in writing by me that they are prohibited from disclosing any of the Information to any person without first obtaining my written authorization to make such disclosure, unless such person is the participant or beneficiary.
- IV. **Audit.** Compliance with any authorization to receive the Information shall be periodically audited by person(s) appointed by me. Such person(s) shall report the results of the audit to me in writing, along with any recommendations they may have for improving or establishing any safeguards necessary or desirable to maintain the confidentiality of the Information. The results of the audit shall not be disclosed to any person(s) not authorized in writing by me to receive such results.
- V. **Prohibition.** Under no circumstances shall the Information be made available or disclosed to Union Pacific Corporation, its officers, directors, employees or affiliates, except to the extent necessary to comply with a federal or state law not preempted by the Employee Retirement Income Security Act of 1974 or as provided in Articles II and III.
- VI. **Standard of Care.** The obligations of the Named Fiduciary-Plan Administration set forth in these Procedures shall be carried out solely in the interests of the participants and beneficiaries of the Plan and for the exclusive purpose of maintaining the confidentiality of the Information.
- VII. **Amendment.** The Named Fiduciary-Plan Administration may amend these Procedures at any time in writing.

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Named Fiduciary – Plan Administration

## EXHIBIT A

### THE FOLLOWING IS THE INVESTMENT PERFORMANCE FOR THE FUNDS AVAILABLE THROUGH THE UNION PACIFIC AGREEMENT EMPLOYEE 401(K) RETIREMENT THRIFT PLAN

	INVESTMENT PERFORMANCE <sup>1</sup>		
	2002	2001	2000
LifeStrategy Income	0.1%	4.1%	8.1%
LifeStrategy Conservative Growth	-5.4%	-0.1%	3.1%
LifeStrategy Moderate Growth	-10.3%	-4.5%	-0.9%
LifeStrategy Growth	-15.8%	-8.9%	-5.4%
Prime Money Market	1.7%	4.2%	6.3%
Fixed Income	5.7%	6.4%	6.7%
Total Bond Market Index	8.3%	8.4%	11.4%
Wellington	-6.9%	4.2%	10.4%
S&P 500 Index	-22.2%	-12.0%	-9.1%
Total Stock Market Index	-21.0%	-11.0%	-10.6%
Windsor II	-16.9%	-3.4%	16.9%
U.S. Growth	-35.8%	-31.7%	-20.2%
Mid-Cap Index	-14.6%	-0.5%	18.1%
Small-Cap Index	-20.0%	3.1%	-2.7%
International Growth	-17.8%	-18.9%	-8.6%
Union Pacific Common Stock	5.3%	13.5%	18.3%

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1 These returns are calculated by Vanguard. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

**SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS**  
**08/01/2003**

This notice explains how you can continue to defer federal income tax on your retirement savings and contains important information you will need before you decide how to receive your plan benefits.

This notice is provided to you by your Plan Administrator because all or part of the payment that you will soon receive from the plan may be eligible for rollover by you or your Plan Administrator to a traditional IRA or an eligible employer plan. A rollover is a payment by you or the Plan Administrator of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA). An “eligible employer plan” includes a plan qualified under section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) annuity plan; a section 403(b) tax-sheltered annuity; and an eligible section 457(b) plan maintained by a governmental employer (governmental 457 plan).

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions, such as after-tax amounts. If this is the case, and your distribution includes after-tax amounts, you may wish instead to roll your distribution over to a traditional IRA or split your rollover amount between the employer plan in which you will participate and a traditional IRA. If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse’s consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from this plan. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

If you have additional questions after reading this notice, contact the HR Service Center at 1-877-275-8747 or Company line 271-4000; Option 1.

**How to Obtain Additional Information**

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described below are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with the Plan Administrator or a professional tax adviser before you take a payment of your benefits from your plan. Also, you can find more specific information on the tax treatment of payments from qualified employer plans in **IRS Publication 575**, *Pension and Annuity Income*, and **Pub. 590**, *Individual Retirement Arrangements*. These publications are available from your local IRS office, on the **IRS website (www.irs.gov)**, or by calling 1-800-TAX-FORMS.

**Summary**

There are two ways you may be able to receive a plan payment that is eligible for rollover: (1) certain payments can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit (“direct rollover”), or (2) the payment can be paid to you.

If you choose a Direct Rollover:

- Your payment will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The taxable portion of your payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from this plan.

If you choose to have a plan payment that is eligible for rollover paid to you:

- You will receive only 80% of the taxable amount of the payment, because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59½, you may have to pay an additional 10% tax.
- You can roll over all or part of the payment by paying it to your traditional IRA or to an eligible employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.
- If you want to roll over 100% of the payment to a traditional IRA or an eligible employer plan, you must find other money to replace the 20% of the taxable portion that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

**Your Right to Waive the 30-Day Notice Period.** Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as it is received in good order by Vanguard.

### **More Information**

- I. Payments That Can and Cannot be Rolled Over
- II. Direct Rollover
- III. Payment Paid to You
- IV. Surviving Spouses, Alternate Payees, and Other Beneficiaries

#### **I. Payments That Can and Cannot be Rolled Over**

Payments from the plan may be “eligible rollover distributions.” This means that they can be rolled over to a traditional IRA or to an eligible employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account. Your Plan Administrator should be able to tell you what portion of your payment is an eligible rollover distribution.

**After-tax Contributions.** If you made after-tax contributions to the plan, these contributions may be rolled into either a traditional IRA or to certain employer plans that accept rollovers of the after-tax contributions. The following rules apply:

- a) **Rollover into a Traditional IRA.** You can roll over your after-tax contributions to a traditional IRA either directly or indirectly. Your Plan Administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax portion.

If you roll over after-tax contributions to a traditional IRA, it is your responsibility to keep track of, and report to the IRS on the applicable forms, the amount of these after-tax contributions. This will enable the nontaxable amount of any future distributions from the traditional IRA to be determined.

Once you roll over your after-tax contributions to a traditional IRA, those amounts cannot later be rolled over to an employer plan.

- b) **Rollover into an Employer Plan.** You can roll over after-tax contributions from an employer plan that is qualified under Code section 401(a) or a section 403(a) annuity plan to another such plan using a direct rollover if the other plan provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You can also roll over after-tax contributions from a section 403(b) tax-sheltered annuity to another section 403(b) tax-sheltered annuity using a direct rollover if the other tax-sheltered annuity provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You cannot roll over after-tax contributions to a governmental 457 plan. If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the Plan Administrator of this plan to make a direct rollover on your behalf. Also, you cannot first roll over after-tax contributions to a traditional IRA and then roll over that amount into an employer plan.

**The following types of payments cannot be rolled over:**

**Payments Spread over Long Periods.** You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- Your lifetime (or a period measured by your life expectancy), or
- Your lifetime and your beneficiary's lifetime (or a period measured by your joint life expectancies), or
- A period of 10 years or more.

**Required Minimum Payments.** Beginning when you reach age 70½ or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a “required minimum payment” that must be paid to you. Special rules apply if you own more than 5% of your employer.

**Hardship Distributions.** A hardship distribution cannot be rolled over.

**ESOP Dividends.** Cash dividends paid to you on employer stock held in an employer stock ownership plan cannot be rolled over.

**Corrective Distributions.** A distribution that is made to correct a failed nondiscrimination test or because legal limits on certain contributions were exceeded cannot be rolled over.

**Loans Treated as Distributions.** The amount of a plan loan that becomes a taxable deemed distribution because of a default cannot be rolled over. However, a loan offset amount is eligible for rollover, as discussed in Part III below. Ask the Plan Administrator of the plan if distribution of your loan qualifies for rollover treatment.

The Plan Administrator of this plan should be able to tell you if your payment includes amounts which cannot be rolled over.

## **II. Direct Rollover**

A direct rollover is a direct payment of the amount of your plan benefits to a traditional IRA or an eligible employer plan that will accept it. You can choose a direct rollover of all or any portion of your payment that is an eligible rollover distribution, as described in Part I above. You are not taxed on any taxable portion of your payment for which you choose a direct rollover until you later take it out of the traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your plan benefits for which you choose a direct rollover.

**Direct Rollover to a Traditional IRA.** You can open a traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a traditional IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the payment. However, in choosing a traditional IRA, you may wish to make sure that the traditional IRA you choose will allow you to move all or a part of your payment to another traditional IRA at a later date, without penalties or other limitations. See **Pub. 590, *Individual Retirement Arrangements***, for more information on traditional IRAs (including limits on how often you can roll over between IRAs).

**Direct Rollover to a Plan.** If you are employed by a new employer that has an eligible employer plan, and you want a direct rollover to that plan, ask the Plan Administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a direct rollover to a traditional IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the Plan Administrator of that plan before making your decision.

**Direct Rollover of a Series of Payments.** If you receive a payment that can be rolled over to a traditional IRA or an eligible employer plan that will accept it, and it is paid in a series of payments for less than 10 years, your choice to make or not make a direct rollover for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

**Change in Tax Treatment Resulting for a Direct Rollover.** The tax treatment of any payment from the eligible employer plan or traditional IRA receiving your direct rollover might be different than if you received your benefit in a taxable distribution directly from the plan. For example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment, as explained below. However, if you have your benefit rolled to a section 403(b) tax-sheltered annuity, a governmental 457 plan, or a traditional IRA in a direct rollover, your benefit will no longer be eligible for that special treatment. See the sections below entitled "Additional 10% Tax if You Are under Age 59½" and "Special Tax Treatment if You Were Born before January 1, 1936."

### III. Payment Paid to You

If your payment can be rolled over under Part I above and the payment is made to you in cash, it is subject to 20% federal income tax withholding on the taxable portion (state tax withholding may also apply). The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a traditional IRA or an eligible employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

#### Income Tax Withholding

**Mandatory Withholding.** If any portion of your payment can be rolled over under Part I above and you do not elect to make a direct rollover, the plan is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable payment of \$10,000, only \$8,000 will be paid to you because the plan must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see “Sixty-Day Rollover Option” below), you must report the full \$10,000 as a taxable payment from the plan. You must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

**Voluntary Withholding.** If any portion of your payment is taxable but cannot be rolled over under Part I above, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, indicate your election in the income tax withholding section of your request form.

**Sixty-Day Rollover Option.** If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to a traditional IRA or an eligible employer plan that accepts rollovers. If you decide to roll over, you must contribute the amount of the payment you received to a traditional IRA or eligible employer plan within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

You can roll over up to 100% of your payment that can be rolled over under Part I above, including an amount equal to the 20% of the taxable portion that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the traditional IRA, or the eligible employer plan, to replace the 20% that was withheld. On the other hand, if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

**Example:** The taxable portion of your payment that can be rolled over under Part I above is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to a traditional IRA or an eligible employer plan. To do this, you roll over the \$8,000 you received from the plan, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000 is not taxed until you take it out of the traditional IRA or an eligible employer plan. If you roll over the entire \$10,000, when you file your income tax return you may get a refund of part or all of the \$2,000 withheld.

If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000.)

**Additional 10% Tax if You are Under Age 59½.** If you receive a payment before you reach age 59½ and you do not roll it over, then, in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax generally does not apply to (1) payments that are paid after you separate from service with your employer during or after the year you reach age 55, (2) payments that are paid because you retire due to disability, (3) payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (4) dividends paid with respect to stock by an employee stock ownership plan (ESOP) as described in Code section 404(k), (5) payments that are paid directly to the government to satisfy a federal tax levy, (6) payments that are paid to an alternate payee under a qualified domestic relations order, or (7) payments that do not exceed the amount of your deductible medical expenses. See IRS Form 5329 for more information on the additional 10% tax.

The additional 10% tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) from another type of eligible employer plan or IRA. Any amount rolled over from a governmental 457 plan to another type of eligible employer plan or to a traditional IRA will become subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless one of the exceptions applies.

**Special Tax Treatment if You Were Born Before January 1, 1936.** If you receive a payment from a plan qualified under section 401(a) or a section 403(a) annuity plan that can be rolled over under Part I and you do not roll it over to a traditional IRA or an eligible employer plan, the payment will be taxed in the year you receive it. However, if the payment qualifies as a “lump-sum distribution,” it may be eligible for special tax treatment. (See also “Employer Stock or Securities,” below.) A lump-sum distribution is a payment, within one year, of your entire balance under the plan (and certain other similar plans of the employer) that is payable to you after you have reached age 59½ or because you have separated from service with your employer (or, in the case of a self-employed individual, after you have reached age 59½ or have become disabled). For a payment to be treated as a lump-sum distribution, you must have been a participant in the plan for at least 5 years before the year in which you received the distribution. The special tax treatment for lump-sum distributions that may be available to you is described below.

**Ten-Year Averaging.** If you receive a lump-sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using “10-year averaging” (using 1986 tax rates). Ten-year averaging often reduces the tax you owe.

**Capital Gain Treatment.** If you receive a lump-sum distribution and you were born before January 1, 1936, and if you were a participant in the plan before 1974, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the plan taxed as long-term capital gain at a rate of 20%.

There are other limits on the special tax treatment for lump-sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump-sum distributions that you receive in that same year. You may not elect this special tax treatment if you rolled amounts into this plan from a 403(b) tax-sheltered annuity contract, a governmental 457 plan, or from an IRA not originally attributable to a qualified employer plan. If you have previously rolled over a distribution from this plan (or certain other similar plans of the employer), you cannot use this special averaging treatment for later payments from the plan. If you roll over your payment to a traditional IRA, governmental 457 plan or a 403(b) tax-sheltered annuity, you will not be able to use special tax treatment for later payments from that IRA, plan, or

annuity. Also, if you roll over only a portion of your payment to a traditional IRA, governmental 457 plan or 403(b) tax-sheltered annuity, this special tax treatment is not available for the rest of the payment. See IRS Form 4972 for additional information on lump-sum distributions and how you elect the special tax treatment.

**Employer Stock or Securities.** There is a special rule for a payment from the plan that includes employer stock (or other employer securities). To use this special rule, (1) the payment must qualify as a lump-sum distribution, as described above, except that you do not need 5 years of plan participation, or (2) the employer stock included in the payment must be attributable to “after-tax” employee contributions, if any. Under this special rule, you may have the option of not paying tax on the “net unrealized appreciation” of the stock until you sell the stock. Net unrealized appreciation generally is the increase in the value of the employer stock while it was held by the plan. For example, if employer stock was contributed to your plan account when the stock was worth \$1,000 but the stock was worth \$1,200 when you received it, you would not have to pay tax on the \$200 increase in value until you later sold the stock.

You may instead elect not to have the special rule apply to the net unrealized appreciation. In this case, your net unrealized appreciation will be taxed in the year you receive the stock, unless you roll over the stock. The stock can be rolled over to a traditional IRA or another eligible employer plan, either in a direct rollover or a rollover that you make yourself. Generally, you will no longer be able to use the special rule for net unrealized appreciation if you roll the stock over to a traditional IRA or another eligible employer plan.

If you receive only employer stock in a payment that can be rolled over, no amount will be withheld from the payment. If you receive cash or property other than employer stock, as well as employer stock, in a payment that can be rolled over, the 20% withholding amount will be based on the entire taxable amount paid to you (including the value of the employer stock determined by excluding the net unrealized appreciation). However, the amount withheld will be limited to the cash or property (excluding employer stock) paid to you.

If you receive employer stock in a payment that qualifies as a lump-sum distribution, the special tax treatment for lump-sum distributions described above (such as 10-year averaging) also may apply. See IRS Form 4972 for additional information on these rules.

**Repayment of Plan Loans.** If you end your employment and have an outstanding loan from your plan, your employer may reduce (or “offset”) your balance in the plan by the amount of the loan you have not repaid. The amount of your loan offset is treated as a distribution to you at the time of the offset and will be taxed unless you roll over an amount equal to the amount of your loan offset to another qualified employer plan or a traditional IRA within 60 days of the date of the offset. If the amount of your loan offset is the only amount you receive or are treated as having received, no amount will be withheld from it. If you receive other payments of cash or property from the plan, the 20% withholding amount will be based on the entire amount paid to you, including the amount of the loan offset. The amount withheld will be limited to the amount of other cash or property paid to you (other than any employer securities). The amount of a defaulted plan loan that is a taxable deemed distribution cannot be rolled over.

#### **IV. Surviving Spouses, Alternate Payees, and Other Beneficiaries**

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are alternate payees. You are an alternate payee if your interest in the plan results from a “qualified domestic relations order,” which is an order issued by a court, usually in connection with a divorce or legal separation.

If you are a surviving spouse, or spouse or former spouse who is an alternate payee, you may choose to have a payment that can be rolled over, as described in Part I above, paid in a direct rollover to a traditional IRA or to an eligible employer plan or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a traditional IRA or to an eligible employer plan. Thus, you have the same choices as the employee.

If you are a beneficiary other than the surviving spouse, or spouse or former spouse who is an alternate payee, you cannot choose a direct rollover, and you cannot roll over the payment yourself.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is generally not subject to the additional 10% tax described in Part III above, even if you are younger than age 59½.

If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump-sum distributions and the special rule for payments that include employer stock, as described in Part III above. If you receive a payment because of the employee's death, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had 5 years of participation in the plan.