UNION PACIFIC CORPORATION

1969 · FIRST ANNUAL REPORT

Oil drilling rig at
40 degrees below zero
on Alaskan North Slope.

UNION PACIFIC CORPORATION 1969 ANNUAL REPORT

EXECUTIVE OFFICES: 345 PARK AVENUE, NEW YORK, N. Y. 10022 (212) 593-1700

CONTENTS

HIGHLIGHTS

	1969*	1968*
GROSS REVENUES AND SALES	$ 680,362,000	$ 639,493,000
NET INCOME:		
Under generally accepted accounting principles	$ 78,196,000	$ 71,686,000
Under I.C.C. accounting rules†	$ 99,146,000	$ 95,588,000
PER SHARE OF COMMON STOCK:		
Net Income:		
Under generally accepted accounting principles	$3.70	$3.39
Under I.C.C. accounting rules†	$4.69	$4.53
Dividends Declared	$2.00	$2.00
CAPITAL EXPENDITURES	$ 178,336,000	$ 110,029,000
WORKING CAPITAL (end of year)	$ 62,944,000	$ 100,228,000
STOCKHOLDERS' EQUITY (end of year)	$1,383,786,000	$1,347,829,000
AVERAGE NUMBER OF EMPLOYEES	32,692	34,008

* Includes consolidated results of Union Pacific Railroad Company prior to the effective date of the exchange offer of Railroad stock for Corporation securities on a "pooling of interests" basis.

† Reported only as a matter of information since the Corporation is not subject to Interstate Commerce Commission accounting rules.

To Our Stockholders:

With pride we present this FIRST ANNUAL REPORT of the Union Pacific Corporation. As we celebrated the Golden Spike Centennial in 1969, we set in motion many promising new programs, the highlights of which are covered in this Report.

Corporation Formed

The formation of the Union Pacific Corporation was announced in January 1969—the most significant organizational change since the Union Pacific Railroad Company split its operations into three divisions in January 1961. A subsequent successful exchange offer of Corporation securities for Railroad securities is explained in the "Financial Review" on page 19. It is the stated objective of the new Corporation to provide a vehicle for sound diversification with special emphasis on growth areas that have some relationship to the existing businesses of Union Pacific.

In order to provide adequate, modern and efficient working conditions, the Corporation's executive offices were moved in early 1970 to 345 Park Avenue, New York City, from outgrown facilities on lower Broadway.

Revenues and Earnings Increased

Gross revenues and sales amounted to $680.4 million in 1969, an increase of $40.9 million or 6.4 per cent over 1968.

An increase in net income was achieved despite highly inflationary cost pressures. Net income for 1969 was $78.2 million, an increase of 9.1 per cent compared with 1968.

Earnings per share were $3.70 in 1969, an increase of 31 cents or 9.1 per cent over 1968.

While we are pleased with this performance, it is our continuing objective through planned growth and increased efficiency to achieve greater profitability in the future.

Results of Operations

Freight revenue and traffic volume were increased in 1969 despite a slowdown in economic activity during the last quarter. The attainment of increased freight revenue reflects 1969 rate increases and continued success in attracting higher-rated traffic, especially manufactured products. Additionally, our new locomotives, with the highest available power ratings, made it possible to increase the amount of tonnage hauled per train; we substantially increased the volume of container traffic handled; and our new unit coal trains produced added operating revenue of $3.5 million in 1969. Union Pacific's new Bailey Yard at North Platte, Nebraska improved the flow of transcontinental freight traffic and reduced operating costs significantly.

The favorable effect of increased freight revenue, however, was partially offset by the inflationary impact of rapidly rising wage and material costs and shrinking passenger revenue.

Natural resources activities made a substantial contribution to earnings, as in past years. Natural gas production from our Rocky Mountain fields increased, while oil production decreased slightly as a result of several pools reaching peak capacity in our Wilmington, California oil field.

Significant Petroleum Developments

Your Company has made several important moves in the oil and gas business, which were reported to you during 1969. Most noteworthy was the $240 million acquisition by Union Pacific Railroad Company of Champlin Petroleum Company and Pontiac Refining Corp. from Celanese Cor-

Over 600,000 people visited Union Pacific's traveling Golden Spike Centennial train exhibits in 1969.

One of Champlin's 1,300 modern service stations in 13 mid-continent states.

poration. Champlin is a fully-integrated petroleum operation that adds new dimensions to our natural resources operations and, with 1,300 service stations in 13 mid-continent states, marks our first entry into consumer marketing of petroleum products. Pontiac contributes considerable refining capacity on the Gulf Coast.

Champlin and Pontiac became part of the Union Pacific family on January 1, 1970 and the companies will continue with the same able management. We expect this operation to contribute to current earnings, and its long-term outlook is for favorable growth.

A new Railroad subsidiary, Union Pacific Resources Corporation, acquired approximately a 15 per cent participation in six leases for Alaskan North Slope oil tracts during 1969. The leases, representing an investment of almost $60 million by the Hamilton Brothers group, are the basis for a promising long-term project for your Company. Hopefully, we will be participating in the development of one of the largest oil discoveries in North America. Under the extremely difficult weather and living conditions and the factors of geography in moving the oil to distant markets, extensive investment and preparatory work will be required during the first few years. However, we believe the prospects for the long term are good.

A sale agreement signed in 1969 with Pan American Petroleum Corporation, a subsidiary of Standard Oil of Indiana, covers a vast exploration program that is well under way. Pan American purchased the exclusive right to acquire oil and gas leases on uncommitted land where Union Pacific owns mineral rights. This agreement is expected to furnish both current and long-term benefits for Union Pacific.

Major Capital Investments

Modernization and expansion programs that make Union Pacific a competitive leader in its business fields involved aggregate capital expenditures of $178.3 million in 1969.

By year-end, 25 giant 6,600-HP Centennial locomotives had been added to the Railroad fleet along with 4,381 new freight cars. The program currently under review contemplates that 22 additional Centennial locomotives will be delivered in 1970, together with 38 5,000-HP locomotives and more than 4,800 freight cars as part of a $145 million equipment program. A $10 million diesel maintenance shop is being built at the Bailey Yard in North Platte, Nebraska which will expedite servicing and produce significant annual savings.

During 1970 a $13 million crude oil processing plant will be completed at Wilmington, California which will increase revenues from our Wilmington oil field.

We spent over $6 million in 1969 for acquisition of choice properties in our successful program to promote industrial development along the Union Pacific system. In addition, we launched several major real estate projects in the West.

New Director Elected

Earl Baldridge, Chairman of the Executive Committee of Champlin Petroleum Company, Fort Worth, Texas, was elected a director of Union Pacific Corporation at the meeting of the Board of Directors held on January 29, 1970. Mr. Baldridge has broad experience developed through a long and distinguished career in the petroleum industry.

Rock Island Status

The I.C.C. hearings on the Union Pacific-Rock Island merger were reopened briefly in November to make Union Pacific Corporation, as parent of Union Pacific Railroad Company, a party to the case. However, Chicago and North Western Railway, a subsidiary of Northwest Industries, filed a supplemental petition for further hearings which the Commission granted on February 19, 1970. A prehearing conference is set for April 1, 1970.

Outlook for 1970 and Beyond

The national economy is passing through a period of uncertainty, and short-term predictions are hazardous. Nevertheless, we are optimistic about the long-term prospects for Union Pacific. By building soundly for the future we are confident that we will be prepared to meet the problem of rising costs in an unsettled economy. On a long range basis, we envision the substantial further development of our existing businesses.

As we work toward these objectives, we appreciate the support of our employees and stockholders and the continued guidance we receive through the wisdom of our Board of Directors.

Frank E. Barnett
CHAIRMAN OF THE BOARD OF DIRECTORS

James H. Evans
PRESIDENT

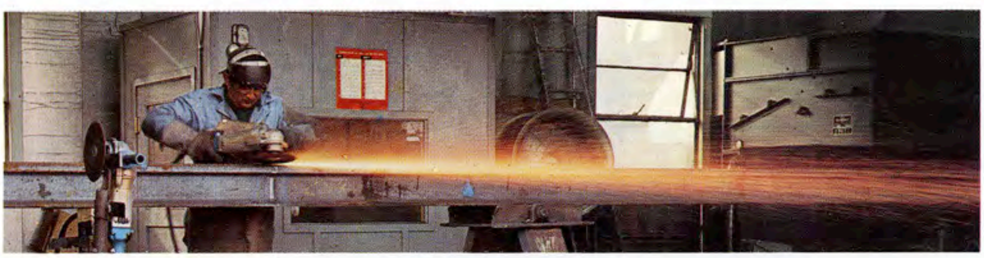
Elbridge T. Gerry
CHAIRMAN OF THE EXECUTIVE COMMITTEE

New York, N.Y.
March 10, 1970.

Right—*One of the many choice western industrial sites served by Union Pacific.*

Below—*Mechanized tie replacement in western Utah.*

OPERATIONS



Above—*Operator finishes weld on continuous rail at Union Pacific's new plant in Laramie, Wyo.*

Near Right—*Pumping oil at Wilmington, Calif. field.*

Far Right—*Exploration drilling in Wyoming.*

TRANSPORTATION

Union Pacific's modern equipment moving through classification yard at East Los Angeles, Calif.

Efficient Performance Boosts Rail Income

Transportation operations showed solid improvement in 1969 as efficient performance and effective marketing produced higher income. Union Pacific's program of substantial capital investment, nearly $700 million in equipment and facilities during the last five years, improved performance and correspondingly reduced operating expenses.

Freight Traffic Gains—Freight revenue reached a new high in 1969 of $594.8 million, an increase of $38.0 million over 1968.

A significant achievement by Union Pacific Railroad was an increase of 5.3 per cent in revenue ton-miles with a reduction in freight train-miles of 2.7 per cent. This accomplishment is a consequence of the increased tonnage handled per train, made possible by the modern equipment added to the Company's locomotive and freight car fleets.

Other important factors contributing to improved operating performance were the expedited flow of transcontinental traffic through the new Bailey Yard at North Platte, Nebraska which also resulted in substantial operating savings; an added number of run-through arrangements with connecting railroads; and further elimination of speed-restricted curves in main line trackage.

In January 1970, a coordinated freight express was inaugurated with the longest regularly scheduled freight run in history—from Jacksonville, Florida to Seattle, Washington, a distance of 3,311 miles. It is a cooperative service of the Union Pacific, Seaboard Coast Line and St. Louis-San Francisco (Frisco) Railroads. Another such freight service was initiated by Union Pacific, Southern Railway and Missouri Pacific between the same points.

Rate Increases. Various freight rate increases, effective in June and November 1968 and in November 1969, contributed importantly to 1969 revenue but were not adequate to cover the effects of spiraling wage rates and benefits and steadily rising material costs. Further increases in freight rates will be required in 1970 to compensate for still higher costs.

Per Diem Decision. Despite petitions and appeals filed by several railroads, including Union Pacific, the Supreme Court in 1969 upheld the order of the Interstate Commerce Commission prescribing a new system of rental charges to be paid by railroads for using the cars of other lines. Ordered to be effective June 1, 1970, but retroactive to August 1, 1969, the system has been changed from flat rates per day to charges on a time and mileage basis. The Commission's order will adversely affect the Company's shippers since it will reduce the cost to user railroads to hold a car and will allow cars to be held longer, thus reducing the number available for shippers' use. In addition, it will affect the Company because of the greater daily average car mileage achieved by Union Pacific as compared with the national average.

However, Union Pacific and other railroads are vigorously supporting legislation in Congress which, if passed, would have the effect of setting aside the order and would require a system of adequate car-hire rates on a time-only basis.

Marketing. During 1969 Union Pacific was successful in improving its commodity mix of higher-rated traffic, especially manufactured products, as well as in attracting a rapidly mounting volume of container traffic. Incentive pricing on commodities such as minerals, paper and corn promoted both higher utilization of equipment and the recapturing of traffic from competing modes of transportation. Consequently, annual revenue per car for such commodities was increased. Expanded marketing activities in Alaska and throughout the Far East will enhance traffic during 1970.

Containerization. Trailer/container rail traffic increased substantially in 1969, producing revenues for the Railroad in excess of $34.5 million. The Company is expanding its container facilities at Seattle, Washington, Salt Lake City, Utah, and Denver, Colorado; and has purchased additional equipment, including a 40-ton straddle crane and a 45-ton side-loading device.

Unit Coal Trains Exceed Forecasts. During the first year of operation, unit trains hauled over 1.1 million tons of Utah coal to the Kaiser Steel Corporation's plant at Fontana, California. Union Pacific's share of the revenue was approximately $3.5 million—a significantly higher figure than forecast due to efficiency in maintaining the tight schedule performance of the trains. Test shipments of Rocky Mountain coal to the Midwest and to ports for the Far East are being made to promote additional unit train opportunities in the future.

Passenger Traffic Decline Continues—Union Pacific has sought persistently every means of reducing losses on passenger operations while adjusting services in response to the ever-declining traffic.

During the year, after lengthy hearings, one train between Omaha and Los Angeles was discontinued with the approval of the Interstate Commerce Commission. This action, plus consolidation of other trains, will effect an annual saving of over 1.5 million passenger train-miles and a reduction in out-of-pocket expenses of $3.5 million.

Sleeping car services formerly provided by the Pullman Company were taken over by the railroads in mid-1969, and significant economies were effected subsequently by the Union Pacific.

Many of the problems of the national passenger train situation can be resolved by enlightened legislation; and a number of bills have been introduced recently in Congress to provide continued and improved rail passenger service where it is needed and to bring some relief to railroads.

Labor Costs—Increased wage rates and fringe benefits granted under agreements negotiated during 1968 and 1969 raised the Railroad's labor expenses by $14.2 million in 1969. Negotiations are in progress on union demands for additional benefits in 1970.

Equipment Program Continues—Capital expenditures by Union Pacific Railroad for new equipment nearly doubled in 1969, with $117.3 million expended, up from $61.0 million in 1968.

Centennial Locomotive–6,600-HP giant of the West.

Unit Train hauling Utah coal through Las Vegas on its way to Kaiser Steel plant at Fontana, Calif.

During the year, 27 new diesel locomotives and 4,381 freight train cars were delivered.

Twenty-five of the new locomotives are the latest twin-engine diesels called "Centennial" locomotives in recognition of the Golden Spike Centennial. With 6,600-HP ratings, they are the most powerful ever built.

The new freight train cars, nearly half of which were built in Union Pacific's own shops, continue the trend toward higher capacities and will provide better service by furnishing shippers with a wide variety of specialized equipment.

The new equipment program planned for 1970 is currently under review. This program involves an estimated capital expenditure of over $145 million to acquire 60 diesel locomotives, including 22 Centennials, and more than 4,800 new freight train cars. However, the scope of the program may be adjusted depending on the outcome of the per diem controversy and other relevant matters.

Important Property Improvements—The construction of a new $10 million diesel locomotive maintenance and service facility in the Bailey Yard at North Platte, Nebraska is now under way. The complex, designed to service a fleet of 600 diesel units, is expected to permit significant savings in maintenance and servicing costs after completion in late 1970.

A new, fully-automated rail welding plant was completed in 1969 at Laramie, Wyoming. The plant accommodates the handling, welding and loading of 1,440-foot lengths of continuous welded rail to be used in all high speed, heavy traffic lines.

A 133-acre, multi-million-dollar auto unloading and distribution center, jointly owned and operated by the Union Pacific and the Milwaukee Railroads, was completed in 1969 at Kent, Washington. Largest in the Northwest, the facility is expected to handle over 75,000 new autos annually for delivery to dealers.

Computer Operations and Systems—Union Pacific's Complete Operating INformation (COIN) system became fully operational early in 1969 and 146 locations were exchanging real-time data with the Company's Computer Center at Omaha. The up-to-the-minute information system is handling nearly 30,000 messages daily as freight car movements are reported and immediate car tracing services are provided to shippers. Movements between terminals by every train and by every car on line, loaded or empty, are reported and centrally recorded at the time the moves take place.

Daily reports derived from the COIN system are prepared for the FLOCON (Flow Control) Division of transportation operations to indicate the location of empty cars moving in trains or being held in yards, by type of car. Central allocation of cars, using coordinated supply/demand data, significantly improved utilization of rolling stock.

Golden Spike Centennial—Union Pacific keyed a large portion of its 1969 advertising and traffic promotion to the centennial of the Golden Spike that marked the completion of the first transcontinental railroad. Over 600,000 people visited Union Pacific's special Centennial Expo train.

Containerization—a growth business for Union Pacific.

Complete Operating INformation (COIN): Console operator (above) on West Coast reports freight movement data to computer center (below) halfway across the continent in Omaha.

NATURAL RESOURCES

Union Pacific's petroleum operations span the West.

Wide-Ranging Steps Taken To Produce Major Growth

Natural resources activities continued to make an important contribution to overall corporate earnings in 1969. Activities were broadened and several developments that had only a minor impact on Union Pacific's 1969 results will have long range favorable effects on net income beginning in 1970.

Higher Oil and Gas Revenues—Gross receipts from oil and gas operations increased 1.3 per cent in 1969. Natural gas production increased 52.5 per cent to 22.1 billion cubic feet, while oil production decreased 3.5 per cent to 11.7 million barrels. The slightly lower level of oil production was due largely to natural declines from peaking production rates in three pools at the Wilmington, California field. Stronger crude oil prices during the year are reflected in the improved revenue.

Wilmington Field Projects—Revenues from the Wilmington field will be increased in 1970 following completion of a $13 million crude oil processing plant which will be placed on-stream during the second quarter. This major facility, designed to upgrade production from the field, will process 30,000 barrels of crude oil per day and will be equipped with the most modern air pollution control systems. Three liquid hydrocarbon products will be piped to the refinery of the purchaser, Union Oil Company of California. A fourth product, petroleum coke, will be accumulated in a new $1.5 million covered warehouse at the Port of Long Beach primarily for regular ocean shipments to the Far East. The shipments will be made under a sales agreement with Collier Carbon and Chemical Corporation covering the purchase of up to 200,000 tons per year for a minimum of five years. Sulfur will be marketed as a secondary product.

Over the past several years, a cooperative effort has been made to raise the quality of water in the Los Angeles–Long Beach harbor to a level that will support marine life. As part of this program, Union Pacific spent $1.3 million during 1969 in an expansion of its system at the Wilmington oil field to dispose of waste water underground. Movement through subsurface formations cleans the water, which is then withdrawn through wells and is used in the high pressure waterflood system for oil recovery.

Calnev Pipe Line Volume Up—The volume of petroleum products transported by the Calnev Pipe Line Company increased 28.2 per cent in 1969 to an annual level of 12.3 million barrels. As part of a long range program to increase the capacity of the pipe line, a $4.9 million project

Oil processing plant at Wilmington, Calif., to be on-stream in 1970, with a crude oil processing capacity of 30,000 barrels per day.

Champlin refinery at Enid, Okla. with a capacity of processing 36,000 barrels of crude oil per day.

is under way for the construction of 107 miles of 14-inch-diameter pipe line in place of 8-inch line between Colton and Barstow, California. Subsequently, plans call for the enlarged system to be extended another 141 miles to Las Vegas, Nevada so that by 1973 the entire line will be equipped with 14-inch pipe.

Champlin and Pontiac Acquisitions—Champlin Petroleum Company and Pontiac Refining Corp. were acquired from Celanese Corporation for $240 million. Half of the amount was paid at the closing in the beginning of January 1970, and the balance is due in three equal annual installments. This acquisition marks the Company's first move into the retail marketing of petroleum products. Champlin markets wholesale and retail gasolines and motor oils, primarily through 1,300 service stations in 13 mid-continent states.

Champlin and Pontiac, headquartered at Fort Worth, Texas, together employ about 1,900 people, and combined sales and revenues in 1969 totaled $192.4 million compared with $187.7 million in 1968. The companies have oil and gas leases covering about 2.5 million acres, about 300,000 of which are producing currently, two full product line oil refineries with a capacity of over 90,000 barrels a day, private crude oil and petroleum product pipe lines extending over 1,500 miles, and five natural gas plants with a total daily capacity of over 600 million cubic feet. The natural gas is sold chiefly to interstate pipe line companies.

Coal and Trona Marketing—High quality, low-sulfur Union Pacific coal from its Wyoming reserves will provide about half of the fuel requirements of a new 1,500-megawatt electricity generating plant near Rock Springs, Wyoming. The first 500-megawatt unit of the facility is expected to be on-stream in 1974 and full completion is scheduled in 1978. Through long-term lease arrangements with Pacific Power and Light Company, Union Pacific began receiving minimum annual payments during 1969 on coal properties held for this facility. When completed, this plant will consume about five million tons of coal annually, and Union Pacific's coal royalties from this project will be significant over a long period.

A number of other Western and Mid-Western utilities are evaluating the possibilities of using low-sulfur coal from Union Pacific's large Rocky Mountain reserves during the Seventies.

The development of markets for natural soda ash production from the Green River, Wyoming trona deposits offers promise for continued growth. Currently, Stauffer Chemical Company of Wyoming, 49 per cent Union Pacific owned, is in the process of expanding its production capacity. Since other companies also are developing trona reserves adjacent to Union Pacific lands, increased royalty income may be expected from this source.

Processing plant for liquefied petroleum gases and natural gasoline at Patrick Draw, Wyo.

Exploration Intensified On Millions of Acres

Recognizing that natural resources operations must expand by continual discovery and development of recoverable reserves, Union Pacific entered into many agreements and joint projects during the year.

Exploration Agreements—A major sale agreement was concluded with Pan American Petroleum Corporation under which that company will pay Union Pacific \$9 million, over a three-year period, for the exclusive right to acquire oil and gas leases on land where Union Pacific holds mineral rights. During the period of the agreement, Pan Am will expend at least \$15 million on exploration work. In addition to receiving royalties on production, Union Pacific will retain approximately 25 per cent of the development rights.

Union Pacific conducts inventories of its vast Rocky Mountain coal reserves, which are largely low-sulfur coal.

Union Pacific Resources Ltd., a subsidiary in Canada, has joined with other companies in programs for western Canada. This group drilled six exploratory wells in Alberta during 1969 and acquired interests in about one million acres of land, in which Union Pacific's net interest is approximately 175,000 acres. Exploratory drilling is planned for the 1970 season.

Major Efforts in Alaska—In 1969 Union Pacific Resources Corporation was formed as a subsidiary to conduct exploration for natural resources in Alaska. As a member of the Hamilton Brothers group of major and independent oil companies, the Company acquired for \$9 million a participation approximating 15 per cent in six North Slope leases, the cost of which aggregated almost \$60 million. The six tracts—State Parcels 16, 18, 22, 23, 51 and 73, consisting of about 15,000 acres—are located near the enormous Prudhoe Bay oil field above the Arctic Circle. Drilling tests and evaluations started in 1969 will be continued by the group in 1970.

In addition to its North Slope activities, Union Pacific is conducting geophysical studies in the Gulf of Alaska with another group of oil companies preparatory to bidding for Federal offshore leases expected to be offered within the next two years.

Progress on Drilling Projects—An exploratory well drilled by Union Pacific at the Roberts Island gas field in central California resulted in the discovery of a new productive horizon and evaluations will be made in 1970. A discovery also was made on property in southern Montana in which Union Pacific holds a 35 per cent leasehold interest and development of the new field has begun.

At the Golden Spike field, discovered in Colorado during 1968, Union Pacific completed a moderately successful producing well in 1969 and additional wells are planned for 1970.

Production tests of the Church Buttes deep zone discovery well revealed sufficient gas to warrant the installation of a small treating plant to make the gas marketable. The plant is virtually completed and will permit long-term tests necessary to evaluate the new producing horizon.

Under the "Ironhorse" program announced last year, Union Pacific and Shell Oil made one discovery in central Colorado and additional drilling is planned in 1970.

A development oil well was completed at the new Ladder Creek field in eastern Colorado and additional development drilling is planned.

In southern Wyoming, two development wells were completed in the Wamsutter gas field and two development wells were drilled as joint operations with other companies in the new Higgins gas field.

Inventory of Coal Reserves—In order to more specifically determine the extent of the vast Union Pacific Rocky Mountain coal reserves, largely low-sulfur coal, an inventory program was inaugurated in late 1968 and about 25 per cent of the project was accomplished by year-end 1969. When concluded, the inventory will provide important definitive data on reserves for marketing, planning and contract negotiations.

Pan American Petroleum geologists will explore land on which Union Pacific owns mineral rights.

Field instruments recording seismic data for exploration.

Prime residential lots being prepared by Upland Industries at Whittier, Calif.

Commercial/Residential Projects Broaden Scope of Land Activities

Union Pacific's land activities continued at a high level in 1969, as new commercial and residential properties underwent development along with major industrial sites in key metropolitan areas.

Major Commercial and Residential Properties— Upland Industries Corporation, a wholly-owned subsidiary formed in 1968, is developing several important commercial and residential properties.

Significant commercial projects were announced during the latter part of 1969 and early 1970 for the states of Nevada and California.

In downtown Las Vegas, Nevada a 23-story hotel with 500 rooms, to be known as the Union Plaza, will be built on the Union Pacific's railroad station grounds. The new hotel, together with a rail and bus transportation center and a 700-car parking facility, is scheduled for completion in mid-1971. The Scott Corporation of Las Vegas, which will lease and operate the hotel, will also own and operate an adjoining casino and entertainment center as part of the new complex.

South of Beverly Hills, at Culver City, California, a commercial area and a major apartment complex consisting of 3,500 apartment units will be developed on a 125-acre tract, known as Fox Hills, in stages over the next five to seven years.

Two announced residential projects in California are well under way. In joint ventures with the Pyron Company, about 1,000 prime residential lots are being developed at Whittier and Fullerton. The first unit of lots at Whittier is already completed and the Loma Alta properties at Fullerton are in initial stages of preparation.

Industrial Property Acquisitions—Over 17,300 acres of choice industrial properties were owned by Union Pacific and were available for sale or lease at year-end. During 1969 eight major land acquisitions were made at prime locations in the states of California, Colorado, Idaho, Oregon, Utah and Washington, totaling 1,071 acres, at an expenditure of $6.1 million.

Industrial Tract Development—With the accelerating economic growth of the states served by the Union Pacific system, well developed and preferentially located properties in the West attracted industries during 1969 which are expected to generate increased annual traffic of about 61,500 freight carloads.

More than 420 firms either selected sites for new plants along the Union Pacific system during the year or announced expansions of facilities. Over 40 of these installations involve sizable projects ranging from $1 million to $90 million.

Among the major new projects announced for Union Pacific sites are: a $7 million pet food processing plant at Topeka, Kansas for General Foods Corporation; a $5.8 million office building and distribution center at City of Industry, California for National Blank Book Company's paper products; a $5 million newspaper and printing plant at Las Vegas, Nevada for Donrey Media Group, General Improvement and Investment Co., Inc.; and $4 million printing plants at both Portland, Oregon for Norwest Publishing Co. and at Lincoln, Nebraska for Mid-America Webpress, Inc.

Major expansions of existing facilities which companies have under way at Union Pacific sites include: a $5 million expansion of Boise Cascade's particle board plant at La Grande, Oregon; a $2.8 million expansion of The Gates Rubber Company's distribution warehouse at Denver, Colorado; and a $2 million expansion of General Leisure Products Corporation's lawn mower and mini-bike plant at Omaha, Nebraska.

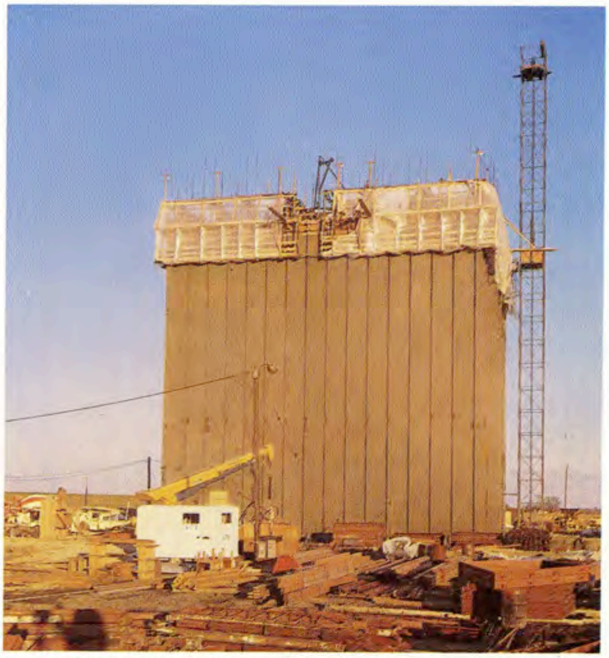
Sizable industrial parks were completed at Los Angeles, California; Lincoln, Nebraska; Las Vegas, Nevada; Denver, Colorado; and Nampa, Idaho. Commercial areas were included in the Lincoln and Denver parks.

Computer Site Selection—An information program is being introduced to permit computer-aided site selection and more accessible recording of statistical data for property management. All active leases and agreements are being placed in memory banks at the Company's Computer Center in Omaha, and programs are being prepared for the statistical and engineering records that will be used in matching an industry's needs with the optimum available Union Pacific properties.

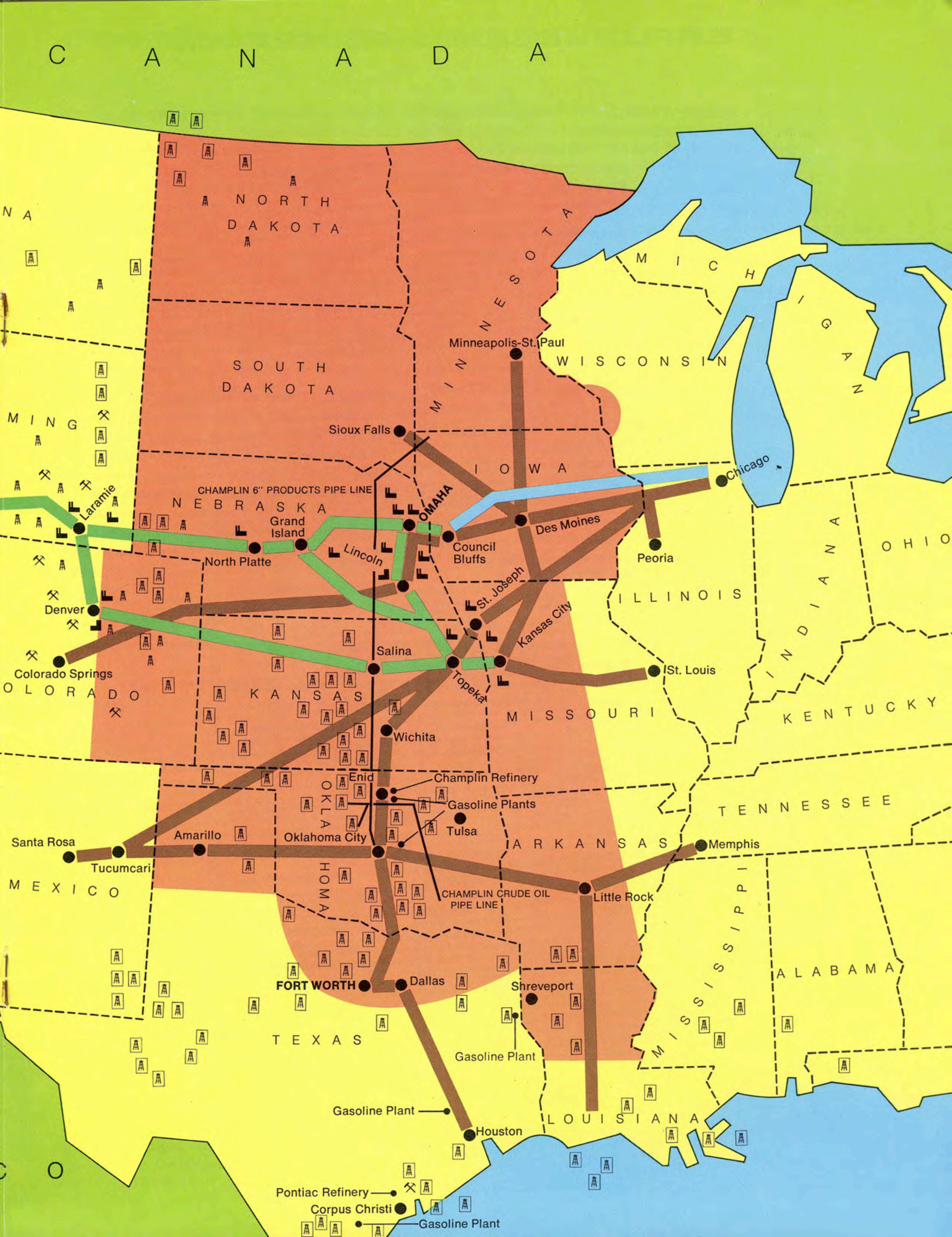
Great Salt Lake Area Development—The Company is waiting for a final decision in litigation resulting from an application to the I.C.C. for permission to extend trackage 13.27 miles to the Bear River Bay area of the Great Salt Lake, Utah. Union Pacific acquired over 2,000 acres in the area in 1967 and proposes to serve an industrial complex designed to recover dissolved mineral salts from the lake brines. Proceedings before the I.C.C. resulted in an order authorizing construction and operation of the trackage. Subsequently, Rio Grande and Southern Pacific Railroads filed a suit in the Federal District Court at Denver to set aside that order and obtained a temporary restraining order. Union Pacific intervened in that suit to support the Commission's authorization for construction and operation of the trackage. A hearing was held on January 19, 1970, but no decision has been announced.

The 23-story Union Plaza Hotel and transportation center to be built in downtown Las Vegas, Nev., during 1970-71.


Engineers inspect grading operations at Upland Industries site for residential homes in California.


A new General Foods Corporation plant under construction at a Union Pacific-served industrial site in Topeka, Kans.


UNION PACIFIC CORPORATION
Areas of Petroleum Activity
Areas of Petroleum Activity (Champlin)
Areas of Mining Activity
Industrial Property
Commercial Property
Residential Property
Union Pacific Railroad
Through Passenger Connections
Rock Island (Certain portions may be sold after merger.)
Champlin Retail Marketing Area
Pipe Lines
UNION PACIFIC
ALASKA
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
WASHINGTON
OREGON
IDAHO
MONTAN
WYOM
NEVADA
CALIFORNIA
UTAH
ARIZONA
NEW
MEXIC
Seattle
Tacoma
Yakima
Spokane
Eastport
Portland
Butte
West Yellowstone
Boise
Idaho Falls
Pocatello
Wells
Ogden
Granger
Rock Springs
Salt Lake City
Reno
Sacramento
San Francisco
Las Vegas
CALNEV PIPE LINE
Los Angeles
Long Beach



CANADA
NORTH DAKOTA
SOUTH DAKOTA
MINNESOTA
WISCONSIN
MICHIGAN
IOWA
NEBRASKA
ILLINOIS
INDIANA
OHIO
KANSAS
MISSOURI
KENTUCKY
TENNESSEE
OKLAHOMA
ARKANSAS
MISSISSIPPI
ALABAMA
TEXAS
LOUISIANA
OLORADO
MEXICO
MING
NA
CHAMPLIN 6" PRODUCTS PIPE LINE
CHAMPLIN CRUDE OIL PIPE LINE
Minneapolis-St. Paul
Sioux Falls
Chicago
Laramie
OMAHA
Grand Island
North Platte
Lincoln
Council Bluffs
Des Moines
Peoria
Denver
St. Joseph
Kansas City
Colorado Springs
Salina
Topeka
St. Louis
Wichita
Enid
Champlin Refinery
Gasoline Plants
Tulsa
Santa Rosa
Tucumcari
Amarillo
Oklahoma City
Memphis
Little Rock
FORT WORTH
Dallas
Shreveport
Gasoline Plant
Gasoline Plant
Houston
Pontiac Refinery
Corpus Christi
Gasoline Plant

EMPLOYEES AND ORGANIZATION

Employment for Union Pacific and its consolidated subsidiaries averaged 32,692 during 1969. In January 1970, 1,900 Champlin and Pontiac people joined the Company, bringing employment to nearly 34,600. Payroll, payroll taxes, and employee benefits for 1969 totaled $356.7 million.

Strengthening Management—To insure our continued growth, emphasis is being placed on developing a talented and innovative management team. During 1969 four new corporate officers, who came to Union Pacific with broad experience in other companies, were elected: James H. Evans, 49, a Union Pacific Director since 1965, as President; William S. Cook, 47, as Vice President—Finance; Harry B. Shuttleworth, 46, as Treasurer; and Bruce J. Relyea, 42, as Controller. John H. Pender, 39, joined Union Pacific during the year as Assistant to the President of the Corporation.

Reginald M. Sutton, formerly Vice President—Finance and Controller and a veteran of more than 50 years of Union Pacific service, was elected Executive Vice President. He also continues as a Director of the Corporation. William J. McDonald, 42, formerly General Counsel, was elected Vice President and General Counsel.

Safety Awards—The World Safety Research Institute, Inc. awarded Union Pacific the *Group A Harriman Bronze Medal* for its employee safety record; and the National Safety Council presented the *Railroad Public Safety Activities Award* to the Company in recognition of its efforts to promote greater public safety.

Education—Over 370 employees participated during 1969 in the Company's tuition aid program. The courses covered a variety of subjects leading toward degrees and diplomas from colleges and technical institutions.

In 1969, 257 college scholarships were awarded by the Union Pacific Railroad to members of 4-H Clubs and Future Farmers of America to encourage young farm people to broaden their education in agriculture and home economics.

Familiarization Tours—First hand knowledge of a railroad system extending over 9,000 miles is a valuable asset in marketing and operations. Under the Union Pacific Railroad's continuing educational tour program, 308 of the Company's traffic and operating employees in 1969 visited all major yard, terminal and port facilities on the Railroad.

Union Pacific Railroad Foundation—During 1969, the eleventh full year of its operation, the Railroad Foundation made about 90 per cent of its grants to educational, medical and human welfare institutions and organizations. The balance of its grants were directed to cultural organizations such as symphonies, museums and historical associations. The primary goal of the Foundation is to maintain good corporate citizenship in helping to meet the diverse needs of the communities in states served by the Railroad.

Mechanized equipment training courses at Las Vegas, Nev., for Union Pacific Railroad's track men.

UNION PACIFIC CORPORATE DATA

EXECUTIVE OFFICES
345 Park Avenue, New York, N.Y. 10022

TRANSFER OFFICE
120 Broadway, New York, N.Y. 10005

REGISTRAR OF STOCK
U. S. Trust Company of New York
45 Wall Street, New York, N.Y. 10005

STOCK LISTING
New York Stock Exchange

TICKER SYMBOL
Union Pacific Corporation - UNP

INCORPORATION
Union Pacific Corporation is incorporated under the laws of the state of Utah.

ANNUAL MEETING OF STOCKHOLDERS
May 12, 1970 — 12:30 P.M.
Hotel Utah, Salt Lake City, Utah
Proxies and proxy statements will be mailed on or about April 1, 1970.

UNION PACIFIC CORPORATION

BOARD OF ** DIRECTORS

* E. ROLAND HARRIMAN, Honorary Chairman
Partner, Brown Brothers Harriman & Co.
New York, N. Y.

* FRANK E. BARNETT, Chairman
New York, N. Y.

* JAMES H. EVANS, President
New York, N. Y.

EDD H. BAILEY
President, Union Pacific Railroad Company
Omaha, Nebr.

EARL BALDRIDGE
Chairman of the Executive Committee,
Champlin Petroleum Company
Fort Worth, Texas

* COURTNEY C. BROWN
Chairman of the Board, American
Assembly, Inc., Columbia University
New York, N. Y.

W. DALE CLARK
Director, World Publishing Company
Omaha, Nebr.

GEORGE S. ECCLES
President, First Security Corporation
Salt Lake City, Utah

WALTER D. FLETCHER
Partner, Davis Polk & Wardwell
New York, N. Y.

ARTEMUS L. GATES
Former Under Secretary of the Navy
Locust Valley, N. Y.

* ELBRIDGE T. GERRY
Chairman of the Executive Committee
Partner, Brown Brothers Harriman & Co.
New York, N. Y.

WILLIAM D. GRANT
Chairman and President, Business Men's
Assurance Company of America
Kansas City, Mo.

OSCAR T. LAWLER
Chairman, Executive Committee,
Security Pacific National Bank
Los Angeles, Calif.

HAROLD B. LEE
First Counselor in the First Presidency,
Church of Jesus Christ of Latter-day Saints
Salt Lake City, Utah

* ROBERT A. LOVETT
Retired Chairman of the Executive Committee,
Union Pacific Railroad Company
Partner, Brown Brothers Harriman & Co.
New York, N. Y.

MORRIS F. MILLER
Chairman, The Omaha National Bank
Omaha, Nebr.

* GEORGE S. MOORE
Chairman, First National City Bank
New York, N. Y.

WILLIAM C. MULLENDORE
Former Chairman, Southern
California Edison Co.
Los Angeles, Calif.

CHRISTIAN W. ROSSWORN
Secretary
New York, N. Y.

JOHN S. SINCLAIR
Councillor, National Industrial
Conference Board, Inc.
New York, N. Y.

* REGINALD M. SUTTON
Executive Vice President
New York, N. Y.

VERNON F. TAYLOR, JR.
Investor
Denver, Colo.

* Executive Committee.

CORPORATE OFFICERS

FRANK E. BARNETT
Chairman of the Board and
Chief Executive Officer

JAMES H. EVANS
President

REGINALD M. SUTTON
Executive Vice President

WILLIAM S. COOK
Vice President — Finance

WILLIAM J. McDONALD
Vice President and
General Counsel

BRUCE J. RELYEA
Controller

CHRISTIAN W. ROSSWORN
Secretary

HARRY B. SHUTTLEWORTH
Treasurer

CHIEF EXECUTIVE OFFICERS— OPERATING GROUPS

EDD H. BAILEY
President, Union Pacific Railroad
and Chief Executive Officer,
Transportation Division (Omaha)

LEE S. OSBORNE
Chief Executive Officer,
Natural Resources
Division (Los Angeles)

JOHN W. GODFREY
Chief Executive
Officer, Land
Division (Omaha)

ROGER S. PLUMMER
President and Chief Executive
Officer, Champlin Petroleum
(Fort Worth)

** All Corporation directors, excepting Mr. Moore, are also directors of the Union Pacific Railroad Company.

Securities of the new Union Pacific Corporation were exchanged during 1969 for common and preferred stock of the Union Pacific Railroad Company.

FINANCIAL SECTION

FINANCIAL INDEX

FINANCIAL REVIEW

Exchange Offer—The new Union Pacific Corporation was incorporated on February 3, 1969 and made an exchange offer to the stockholders of Union Pacific Railroad Company on May 2, 1969. The terms of the offer included a one-for-one exchange of $10 par value common stock, and an exchange of $10 principal amount of 4¾ per cent convertible debentures, in the minimum denomination of $100, for each $10 par value share of 4 per cent Railroad preferred stock.

More than 94 per cent of Railroad Company stockholders accepted the offer for common shares and about 91 per cent of Railroad preferred stockholders accepted the offer of convertible debentures. The Corporation's offer was declared effective June 17, 1969, and was extended to June 30, 1969 when it expired. The Union Pacific Railroad Company is the parent company of all subsidiaries referred to in this Report.

As of December 31, 1969, there were 21,119,728 shares of Union Pacific Corporation common stock outstanding, held by 77,602 stockholders of record. There was $68.1 million principal amount of convertible debentures outstanding at year-end, held by 11,804 owners of record.

Significant Increase in Earnings—Union Pacific's excellent performance in 1969, with consolidated net income of $78.2 million, on the basis of generally accepted accounting principles, represented an increase of $6.5 million or 9.1 per cent compared with 1968. Earnings per share in 1969 were $3.70, an increase of 31 cents over 1968. The contribution to consolidated net income by each operation of the Company in 1969 compared with 1968 (after minority interests) was as follows:

	(Thousands of Dollars)		
	1969	1968	Change
Transportation	$57,141	$50,856	+$6,285
Natural Resources	12,988	11,846	+ 1,142
Land	3,040	3,475	− 435
Other	5,027	5,509	− 482
Total net income	$78,196	$71,686	+$6,510

On the basis of I.C.C. accounting rules, net income for 1969 was $99.1 million or $4.69 per share, an increase of $3.6 million or 16 cents per share compared with 1968.

The $240 million acquisition of Champlin Petroleum Company and Pontiac Refining Corp. had no effect on 1969 earnings since it became effective as of January 1, 1970.

Higher Cash Flow—During 1969 Union Pacific's operating cash flow increased 3.7 per cent to $168.8 million. These funds and the financing discussed later on provided the Company with the necessary capital to advance its expansion, modernization and improvement programs.

Dividends—Cash dividends declared during 1969 aggregated $2.00 per share, including dividends declared prior to exchange date by Union Pacific Railroad Company on common stock exchanged for Union Pacific Corporation common stock. Based on the $2.00 annual rate, dividends declared were equal to 54.0 per cent of net income.

Higher Revenues and Sales—The Company's gross revenues and sales were increased $40.9 million or 6.4 per cent in 1969, totaling $680.4 million for the year. Contributing to the solid growth in revenues and sales were performance and marketing achievements that enabled the movement of a greater volume of freight traffic, an increase in higher-rated freight hauled, and increased sales of oil and gas. Higher freight rates also contributed $21.4 million to revenue. However, the downward trend in passenger revenue continued in 1969, with a decline of $2 million or 13.7 per cent compared with 1968.

Operating Costs—Operating costs aggregated $566.1 million in 1969, $34.9 million or 6.6 per cent higher than in 1968. The increase was due primarily to the continuing inflationary impact of rising wage rates, fringe benefits and material prices. However, continued success in improving methods of operation and significant economies realized as a result of substantial expenditures for property improvements in recent years were of considerable importance in reducing the adverse effects of inflation.

Other Income—Other income increased $0.9 million or 4.1 per cent over 1968 to a total of $22.7 million. The increase resulted primarily from higher interest income and increased profits on sales of industrial property, partially offset by a decrease in dividend income. Several real estate projects in progress or started during 1969 will begin to be reflected in operating results in 1970.

Interest Expense—Interest expense was $13.9 million in 1969, an increase of $2.9 million or 26.0 per cent over 1968. The increase was principally attributable to interest beginning April 1, 1969, on the 4¾ per cent convertible debentures issued in exchange for Railroad Company preferred stock.

STATISTICAL SUPPLEMENT

A supplemental report showing financial and statistical data of Union Pacific Railroad Company will be published in May 1970. If you would like to have a copy, write to: Bruce J. Relyea, Controller, Union Pacific Corporation, 345 Park Avenue, New York, N. Y. 10022.

Federal Income Taxes—Current Federal income taxes amounted to \$16.8 million in 1969, an increase of \$2.3 million or 15.5 per cent compared with 1968. Deferred Federal income taxes were \$22.3 million, a decrease of \$3.1 million or 12.4 per cent, due to application of the comprehensive tax allocation principle.

The Tax Reform Act of 1969 contains many provisions which affect the railroad industry and Union Pacific. The discontinuance of the 7 per cent investment tax credit in 1970 and the inauguration of a 10 per cent tax on so-called "tax preference" income will have a substantially adverse effect on the Company. However, this will be largely offset by 5-year amortization on rolling stock and by the elimination of the surtax.

Property Investment—Net investment in properties at year-end amounted to \$1.9 billion, an increase of \$103.4 million over investment at December 31, 1968. Gross expenditures for the Company's capital improvement program totaled \$178.3 million in 1969, an increase of \$68.3 million compared with 1968.

In addition to the substantial acquisitions of railroad equipment during the year, an automated rail welding facility in Wyoming and a jointly-owned automobile unloading and distribution center in Washington were completed in 1969. Eight major industrial land acquisitions in six states were made during 1969, totaling 1,071 acres at \$6.1 million. Substantial projects under way during the year included an oil processing plant in California, and a diesel locomotive maintenance and servicing facility at the new Bailey Yard.

Long-Term Debt—Long-term debt outstanding on December 31, 1969, was \$299.0 million, an increase of \$80.0 million compared with 1968. The increase was largely due to issuance of the 4¾ per cent convertible debentures in exchange for Railroad Company preferred stock.

Financing Arrangements—During 1969 authorization was obtained by the Railroad from the I.C.C. to issue up to \$125 million principal amount of commercial paper. Subsequently, bank credit lines in the aggregate amount of \$150 million were confirmed with 28 banks. Of these lines, \$75 million was in the form of a three-year revolving credit arrangement.

As of December 31, 1969, commercial paper outstanding under the I.C.C. authorization aggregated \$100 million and bank loans under the confirmed credit lines aggregated \$25 million.

These funds were required to maintain adequate cash reserves and augment working capital. Cash reserves had been reduced substantially by the Company's extensive equipment acquisition program. During the past five years, more than \$606 million was spent for new rolling stock.

Modern, 12-story addition to Union Pacific's railroad headquarters in Omaha, Nebr., to be completed during 1971.

Union Pacific's new executive offices occupy the 31st floor of this modern building at 345 Park Avenue, New York City.

UNION PACIFIC
CORPORATION
AND SUBSIDIARY
COMPANIES

Statement of Consolidated Income
(Thousands of Dollars)

	1969	1968
GROSS REVENUES AND SALES	$680,362	$639,493
OPERATING COSTS:		
Salaries, wages and employee benefits	341,746	327,062
Material and supplies	62,340	55,781
Depreciation and property retirements	62,589	58,325
State and local taxes	24,925	24,418
Other operating costs	74,515	65,598
TOTAL	566,115	531,184
NET OPERATING INCOME	114,247	108,309
OTHER INCOME	22,727	21,842
INTEREST EXPENSE	(13,876)	(11,017)
INCOME BEFORE FEDERAL INCOME TAXES	123,098	119,134
FEDERAL INCOME TAXES (Note 5):		
Current	16,840	14,578
Deferred	22,253	25,389
INCOME BEFORE MINORITY INTERESTS	84,005	79,167
MINORITY INTERESTS	5,809	7,481
NET INCOME (under generally accepted accounting principles)	$ 78,196	$ 71,686
PER SHARE OF COMMON STOCK:		
Assuming no dilution	$3.70	$3.39
Assuming full dilution	3.56	

Consolidated net income on an I.C.C. accounting basis is as shown below. The difference from generally accepted accounting principles is that no recognition is given to deferred Federal income taxes.

	1969	1968
Amount (Thousands of Dollars)	$99,146	$95,588
Per share	4.69	4.53

The accompanying notes to financial statements are an integral part of this statement.

UNION PACIFIC
CORPORATION
AND SUBSIDIARY
COMPANIES

Consolidated Balance Sheet

(Thousands of Dollars)

ASSETS	December 31, 1969	December 31, 1968
CURRENT ASSETS		
Cash	$ 38,923	$ 18,745
Temporary cash investments, at cost, which approximates market	160,833	112,130
Accounts receivable	97,269	87,483
Material and supplies, at the lower of average cost or market	30,410	25,240
Other current assets	11,838	11,918
Total Current Assets	339,273	255,516
INVESTMENTS		
Investments in affiliated companies, at cost	35,724	34,860
Other investments	73,987	70,808
Reserve for adjustment of investments in securities	(18,318)	(18,318)
Total Investments	91,393	87,350
PROPERTIES (Notes 4 and 6)		
Transportation property	2,226,924	2,142,532
Other property	170,851	143,083
Less—reserves for depreciation and amortization	(528,041)	(519,309)
Properties—Net	1,869,734	1,766,306
OTHER ASSETS AND DEFERRED CHARGES	21,634	13,559
TOTAL ASSETS	$2,322,034	$2,122,731

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1969	December 31, 1968
CURRENT LIABILITIES		
Notes payable	$ 100,000	—
Accounts and wages payable	32,094	$ 27,477
Accrued liabilities:		
Federal income taxes (Note 5)	2,088	4,795
Interest	4,221	3,444
Other	85,220	74,150
Dividends payable	11,769	11,761
Long-term debt due within one year	30,249	24,687
Other current liabilities	10,688	8,974
Total Current Liabilities	276,329	155,288
LONG-TERM DEBT DUE AFTER ONE YEAR (Note 6)	298,972	218,977
DEFERRED FEDERAL INCOME TAXES (Note 5)	219,603	196,621
CASUALTY AND OTHER RESERVES	34,729	34,268
OTHER LIABILITIES AND DEFERRED CREDITS	15,352	9,947
MINORITY INTERESTS (Note 1)	93,263	159,801
STOCKHOLDERS' EQUITY		
Common stock (Notes 1, 8 and 11)	211,197	211,197
Paid-in surplus	46,794	46,794
Retained income	1,125,795	1,089,838
Stockholders' Equity	1,383,786	1,347,829
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,322,034	$2,122,731

The accompanying notes to financial statements are an integral part of this statement.

UNION PACIFIC
CORPORATION
AND SUBSIDIARY
COMPANIES

Statement of Consolidated Retained Income
(Thousands of Dollars)

	1969	1968
BALANCE AT BEGINNING OF YEAR	$1,089,838	$1,060,391
NET INCOME FOR THE YEAR	78,196	71,686
	1,168,034	1,132,077
DIVIDENDS DECLARED (Notes 1 and 11)		
Union Pacific Corporation:		
Common stock		
50¢ per share payable October 1, 1969	10,551	—
50¢ per share payable January 2, 1970	10,555	—
Union Pacific Railroad Company prior to exchange date:		
Common stock exchanged for Corporation common	21,133	42,239
Total dividends declared	42,239	42,239
BALANCE AT END OF YEAR	$1,125,795	$1,089,838

The accompanying notes to financial statements are an integral part of this statement.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Source and Application of Funds

(Thousands of Dollars)

	1969	1968
SOURCE OF FUNDS		
Net income	$ 78,196	$ 71,686
Minority interest in net income of subsidiaries	5,809	7,481
Depreciation and property retirements (Note 4)	62,589	58,325
Provision for deferred Federal income taxes (Note 5)	22,253	25,389
Proceeds from long-term financing (Note 6)	55,000	12,233
Proceeds from promissory notes issued ($100 million face value)	98,503	—
	$322,350	$175,114
APPLICATION OF FUNDS		
Dividends declared (includes $4,290,000 and $5,650,000, respectively, to minority interests)	$ 46,529	$ 47,889
Cost of retiring funded debt	34,330	24,577
Capital expenditures:		
Transportation	141,336	84,542
Natural Resources	27,562	6,963
Land	9,438	18,524
Use of proceeds from issue of promissory notes to increase cash reserves	98,503	—
Other items—net	1,936	2,940
	$359,634	$185,435
Net decrease in working capital	$ 37,284	$ 10,321
Working capital at beginning of year	100,228	110,549
Working capital at end of year	$ 62,944	$100,228

The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements

1. Organization of Corporation

Union Pacific Corporation was incorporated in the State of Utah on February 3, 1969 for the purpose of becoming the parent of the Union Pacific Railroad and its subsidiary companies through a voluntary exchange of securities. Upon consummation of the exchange offer, which terminated on June 30, 1969, 21,119,728 shares of common stock and $68,051,200 of 4¾% convertible debentures due 1999 were issued in exchange for 21,119,728 shares of Railroad common stock and 6,805,120 shares of Railroad preferred stock which aggregated 94.2% and 90.7%, respectively, of each class of Railroad stock outstanding.

The exchange of Railroad stock for Corporation securities has been accounted for as a "pooling of interests" and accordingly net income includes consolidated results of operations of the Railroad prior to the effective date of the exchange offer. Railroad preferred stock and dividends accrued thereon prior to the effective date of the exchange offer have been included in minority interests in the accompanying consolidated statements.

2. Acquisition of Champlin and Pontiac

Effective January 1, 1970, the Union Pacific Railroad through its wholly-owned subsidiary, Union Pacific Petroleum Corporation, purchased from Celanese Corporation all the outstanding capital stock of Champlin Petroleum Company and Pontiac Refining Corp. for a cash consideration of $240,000,000. Payment from current funds of $120,000,000 was made on January 5, 1970, the closing date of the agreement, and the remaining balance due will be paid in annual instalments of $40,000,000 on January 2, 1971, 1972 and 1973, respectively (Union Pacific Petroleum has the option to prepay the last two instalments after January 2, 1971). All instalment payments will bear interest on the unpaid balance (from January 1, 1970 to date of payment) at the rate of nine percent per annum.

The financial statements of Champlin and Pontiac (combined for the year ended December 31, 1969), which have been examined and reported upon by other certified public accountants, reflect stockholder's equity of $171,408,000 and net income of $14,199,000.

3. Principles of Consolidation

The accompanying consolidated financial statements include all subsidiary companies over 50% owned directly or indirectly by the Corporation. All significant inter-company transactions have been eliminated.

4. Property (At Cost)

Properties at December 31, 1969 and 1968 are summarized below:

	1969	1968
Transportation property:		
Road:		
Depreciable	$ 342,643,759	$ 337,400,569
Non-Depreciable (land, track, etc.)	634,168,640	627,016,418
Railroad equipment	1,231,864,857	1,163,134,714
Other	18,246,294	14,979,922
Total transportation property	2,226,923,550	2,142,531,623
Other property	170,851,397	143,083,129
TOTAL	$2,397,774,947	$2,285,614,752

The Railroad's current cost of repairs and renewals of parts of the track structure is charged to maintenance expense and additions and betterments to the structure are capitalized. The loss on retirements of such road property is included in operating expenses. Charges for repairs and renewals of track structure were approximately $33,586,647 and $32,860,767 in 1969 and 1968, respectively.

Additions, renewals and betterments of all other classes of Railroad property are capitalized. Expenditures for maintenance and repairs are charged to operating expenses. When equipment or depreciable road property is sold or retired, the cost less salvage value (service value) is charged to accumulated depreciation. In the case of non-railroad property sold or retired, cost and accumulated depreciation are written off and losses are reflected in income.

Provision for depreciation on property is computed on the straight-line method based on the estimated service lives of such property. Such depreciation amounted to $58,643,240 and $57,535,361 in 1969 and 1968, respectively.

5. Federal Income Taxes

The Corporation and its subsidiaries account for Federal income taxes under the "comprehensive tax allocation" method covered by Opinion No. 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants. Under this method, $22,253,000 in 1969 and $25,389,000 in 1968 was provided for net tax reductions resulting primarily from deductions for depreciation and amortization of property for income tax purposes in excess of depreciation recorded on the books.

Federal income taxes have been reduced by application of the investment credit in amounts approximating $10,000,000 and $6,700,000 in 1969 and 1968, respectively.

Federal income tax returns have been examined by the Internal Revenue Service through 1962 and settlement made through 1941. In the opinion of tax counsel, Federal income tax accruals are considered adequate to cover possible deficiencies that may arise for the years still open.

6. Long-Term Debt

Long-term debt, at December 31, 1969 and 1968 (exclusive of debt due within one year), is summarized as follows:

	1969	1968
First National City Bank Credit Agreement, 8½%, due 1972	$ 25,000,000	—
Refunding Mortgage Bonds, Series C, 2½%, due 1991[1]	55,355,000	$ 61,094,000
Debenture Bonds, 2⅞%, due 1976[2]	35,658,000	39,526,000
Equipment Obligations, 4⅛% to 8½%, due 1971 to 1983	114,907,773	118,357,455
Convertible Debentures, 4¾%, due 1999[3]	68,051,200	—
TOTAL	$298,971,973	$218,977,455

[1] After deducting $10,677,000 in 1969 and $5,647,000 in 1968 held in treasury.
[2] After deducting $6,017,000 in 1969 and $2,443,000 in 1968 held in treasury.
[3] The debentures, which are redeemable after April 1, 1974 at the option of the Corporation at an initial redemption price of 104.75% of the principal amount, are convertible until April 1, 1999 at $57.14 per share (subject to adjustment under certain conditions).

Approximately 3,300 miles of Railroad main and branch line track, including certain railway equipment, supplies and other facilities are subject to the lien of the mortgage securing the above refunding mortgage bonds. These bonds and the 2⅞% debenture bonds are subject to annual sinking funds of $430,000 and $235,000, respectively. Certain railway equipment is subject to prior lien under outstanding equipment trust certificates and purchase contracts.

7. Pension Plans

The Railroad and its affiliates have a funded pension plan for salaried employees as well as an unfunded supplemental plan for officers and supervisors. The past service liability of the funded plan was approximately $43,564,000 at December 31, 1969 and is being funded over thirty years by making annual payments of approximately $2,719,000. Annual payments to fund current service costs approximate $929,000. The actuarially computed value of vested benefits as of December 31, 1969, exceeded the value of the pension plan assets by approximately $13,700,000. Related charges to operating expenses representing payments under the above plans were $7,500,724 ($3,627,583, under the unfunded plan and $3,873,141 under the funded plan) in 1969 and $5,629,066 ($3,719,366 under the unfunded plan and $1,909,700 under the funded plan) in 1968. The Company reserves the right to discontinue these plans at any time.

8. Stock Options

When the exchange offer became effective as described in Note 1, the Corporation assumed all the obligations of the Railroad's 1968 Stock Option Plan. Effective May 1, 1969, the Board of Directors and the stockholders approved the "1969 Stock Option Plan of Union Pacific Corporation" under which options may be granted to officers and key employees to purchase 350,000 shares of Corporation common stock through April 30, 1979. Options granted under the plan may be "qualified stock options" as defined in Section 422 of the 1954 Internal Revenue code as amended or may be options which do not meet these requirements ("non-qualified stock options"). Qualified and non-qualified stock options are exercisable for periods of 5 and 10 years, respectively, at 100% of market value at the date of grant. All options become exercisable 1 year after date of grant.

A brief summary of activity under both plans follows:

	Price range per share	Shares under option
Railroad Plan:		
Outstanding at January 1, 1968	$49.50	104,500
Granted in 1969	$49.06 to $62.31	22,500
Outstanding at December 31, 1969		127,000
Exercisable at December 31, 1969	$49.50	104,500
Corporation Plan:		
Granted in 1969	$42.69 to $52.13	23,000

9. Deposits in Connection With the Proposed Union Pacific-Rock Island Merger

In connection with the proposed Union Pacific-Rock Island merger, Union Pacific Railroad issued negotiable Certificates of Deposit, representing 2,705,167 Rock Island shares deposited under Union Pacific's exchange offer, which provides (subject to approval of the merger by the I.C.C.) for the exchange for each share of Rock Island stock of (a) one share of new Union Pacific Railroad Company $1.80 Convertible Preferred Stock, cumulative as to dividends, plus (b) a contingent cash payment of $4.65 per share, aggregating $12,430,692.

10. Commitments, Contingent Liabilities and Litigation

The Railroad is contingently liable (a) as guarantor with other participating companies of certain equipment obligations of Trailer Train Company, maturing annually to 1982 in the amount of $56,191,123 at December 31, 1969 (b) for additional annual premiums in the maximum amount of $12,140,000 at December 31, 1969 which may arise from work stoppages on other railroads under a service interruption policy (c) for outstanding bonds of Kansas City Terminal Railway Company, an affiliate, maturing serially through 1974 in the amount of $31,204,000 at December 31, 1969 and (d) for other commitments which in the opinion of the Corporation will not have a materially adverse effect on its operations and financial position. (See also Note 9.) The Railroad is defendant to an action brought by the City of Los Angeles in which it claims ownership of, and seeks an accounting with respect to, 206 acres of land located in the Wilmington oil field, the Railroad's principal oil producing property. In the opinion of independent counsel, the Railroad has substantial defenses which, in their view, will be sustained by the Court.

11. Capital Stock

The authorized and outstanding capital stock of the Corporation at December 31, 1969 is as follows:

	Authorized shares	Outstanding Shares	Outstanding Amount
Preferred Stock—no par value	10,000,000	—	—
Common Stock—$10.00 par value	30,000,000[1]	21,119,728	$211,197,280

[1] Includes 1,190,896 shares reserved for issuance upon conversion of 4¾% Convertible Debentures, 127,000 shares reserved for issuance upon exercise of options issued under the Railroad 1968 Stock Option Plan and assumed by the Corporation, and 350,000 shares reserved for issuance under the Corporation 1969 Stock Option Plan.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

Union Pacific Corporation,

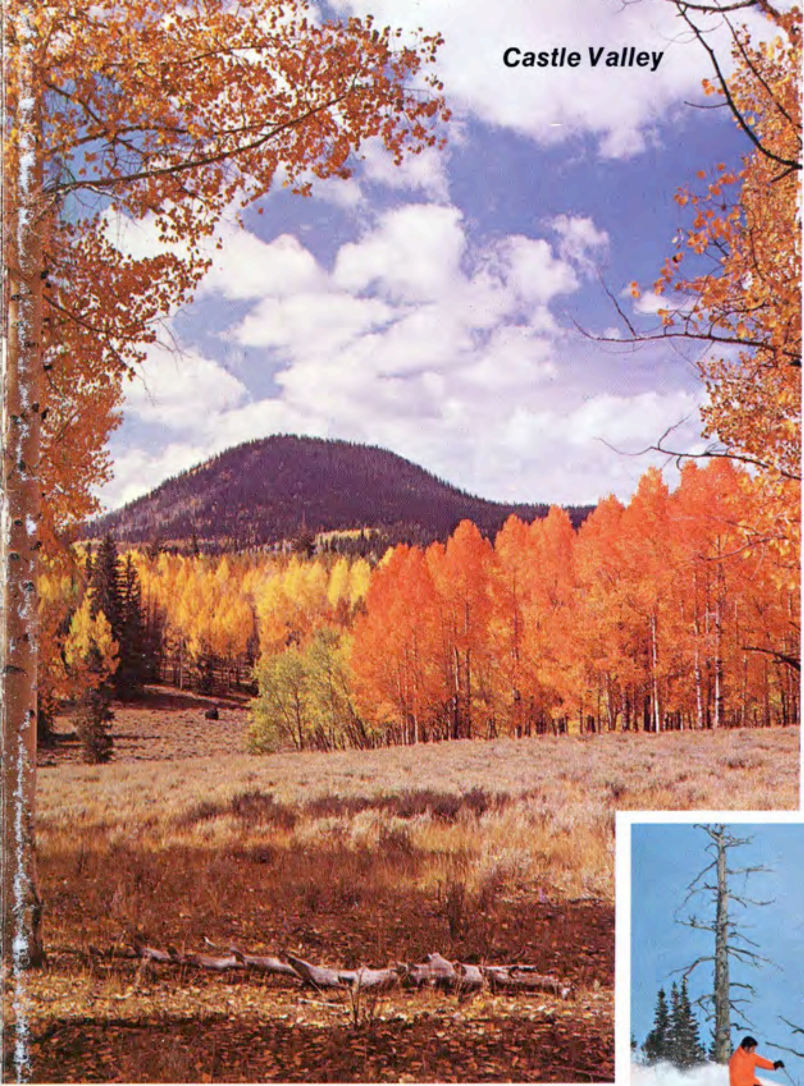
Its Directors and Stockholders:

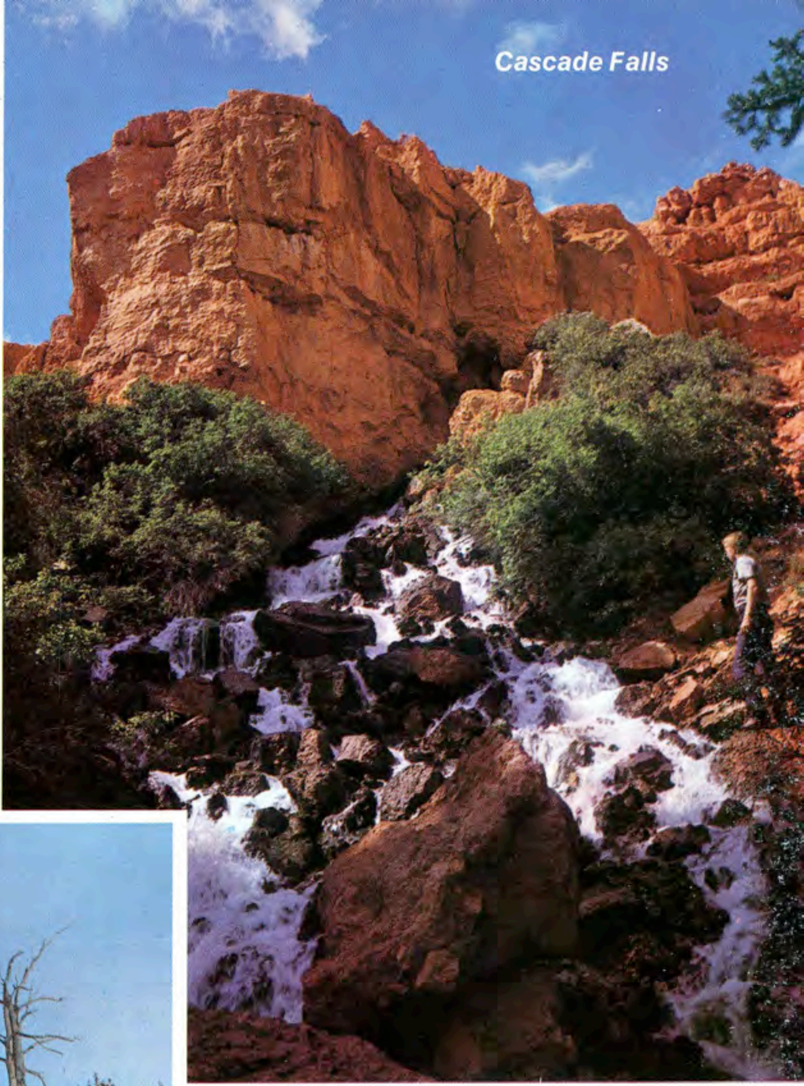
We have examined the consolidated balance sheet of Union Pacific Corporation and its Subsidiary Companies as of December 31, 1969 and the related statements of consolidated income, consolidated retained income and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the Union Pacific Corporation and its Subsidiary Companies at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 2, 1970

Haskins & Sells


Castle Valley


Cascade Falls


Deep Powder Snow


Bingham Canyon Copper Mine

UNION PACIFIC CORPORATION · 1969 ANNUAL REPORT

UNION PACIFIC