UNION PACIFIC CORPORATION ▪ 1971 ANNUAL REPORT

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Executive Offices: 345 Park Avenue, New York, N. Y. 10022 Phone: (212) 593-1700

Contents

About the Cover

Union Pacific's operations in Transportation, Natural Resources, and Land Development are represented on the cover by: one of the Railroad Company's new freight cars, a Champlin service station displaying the new Champlin insignia and the Union Plaza Hotel, Las Vegas, completed in 1971 by Upland Industries and leased to an independent operator.

Highlights

	1971	1970
Gross Revenues and Sales	**$ 977,241,000**	$ 937,345,000
Income Before Extraordinary Item*	**$ 90,666,000**	$ 79,748,000
Per Share of Common Stock:		
Income Before Extraordinary Item	**$4.03**	$3.56
Dividends Declared	**$2.00**	$2.00
Operating Cash Flow	**$ 221,368,000**	$ 218,371,000
Capital Expenditures	**$ 178,686,000**	$ 224,560,000
Working Capital (end of year)	**$ 85,229,000**	$ 99,364,000
Stockholders' Equity (end of year)	**$1,493,512,000**	$1,504,467,000
Stockholders of Record—Common and Preferred (end of year)	**82,996**	78,256
Average Number of Employees	**30,902**	32,097

* *Income applicable to 1970 has been restated as a result of the merger discussed in Note 1 of the Notes to Financial Statements.*

Opposite—Champlin's 180-acre, 62,000 barrels a day oil refinery at Corpus Christi, Tex. where new facilities will soon permit production of low-leaded and unleaded gasolines. The tanker is under charter to Champlin and carries refinery products to New York and Boston.

To Our Stockholders:

One of the measurements of a company's inherent strength is its performance under difficult economic conditions. Certainly 1971 was such a year for American business. For many industries, including our own, the problems were compounded by labor disputes, followed by wage settlements which create some uncertainty for the future. Against that background, Union Pacific's 1971 achievement of record gross revenues and sales and record earnings before the extraordinary Amtrak chargeoff speaks for itself.

Union Pacific's 1971 earnings from ordinary operations were a record $90.7 million, 13.7 percent and $11.0 million above 1970 earnings of $79.7 million. Earnings per share increased 13.2 percent to $4.03, $.47 higher than $3.56 per share in 1970.

Gross revenues and sales also increased in 1971 to a record high of $977.2 million, up 4.3 percent or $39.9 million from the 1970 total of $937.3 million.

The improved earnings performance in 1971 was primarily due to a sharp rise in earnings from transportation operations and an increased contribution from petroleum operations. Concerted efforts to increase operating efficiency throughout the year, improved freight rates, benefits from discontinuance of the Railroad's passenger service and higher freight volume late in the year helped Union Pacific overcome the effects of a sluggish national economy and the rail, coal and dock strikes.

Elbridge T. Gerry Frank E. Barnett James H. Evans

Two factors were most significant in their adverse impact on the Corporation's earnings. Freight volume was seriously affected by strikes of United Transportation Union members, West Coast longshoremen and coal miners, the 18-day whipsaw rail strike alone reducing earnings by approximately $7 million, or $.33 a share, after deducting proceeds from strike insurance. In addition, a reserve of $6.1 million, representing $.14 a share after Federal income taxes, was established for possible losses applicable to one tract of the six on the North Slope of Alaska in which the Company acquired interests in 1969. Reserves applicable to the five other tracts were established in 1970, based on evaluation of exploratory drilling results that indicated doubtful potential value.

Although income from land operations was below the 1970 level, this is by no means a full measure of the contribution that land development activities make to overall corporate results. Selling or leasing industrial sites along the Union Pacific Railroad to traffic-producing firms obviously benefits earnings from transportation operations.

Your Company supported the Rail Passenger Service Act passed by Congress in late 1970. The Act authorized formation of the National Railroad Passenger Corporation (Amtrak) to provide intercity rail passenger service considered necessary by the Department of Transportation. After considerable study, Amtrak elected to eliminate most passenger service on the Union Pacific system.

A reserve was established for the cost of entry by the Railroad into Amtrak, for write-off of facilities and equipment no longer required for passenger service and for labor protection required by the Rail Passenger Service Act. The entire cost of Union Pacific Railroad's entry into the Amtrak program entailed an extraordinary charge to income of $65.1 million, or $2.90 a share, after Federal income taxes. Accordingly, net income for the year 1971 after the extraordinary charge was $25.6 million, or $1.13 a share. Over the long term, our earnings will benefit appreciably from the Amtrak participation as a result of being relieved of continued losses from passenger service.

Restructuring the Organization—In June, 1971 the Corporation acquired the Railroad's remaining publicly held stock (5.8 percent of common stock and 9.3 percent of preferred stock) and the basic business activities of the parent Corporation were realigned into five operating components. The following two pages of this Report discuss the significance of these changes and present a comprehensive picture of this new corporate organization.

As we stated at the 1971 Annual Meeting, "We continue to operate a Railroad in the utmost faith that we are going to stay in the business—and stay in the business as the *best*." The parent company provides a practical working structure within which the Board of Directors and management have greater freedom to manage Union Pacific's traditional businesses in the fields of transportation, natural resources and land development.

Federal Legislation—It is gratifying to see three major transportation industries—railroad, trucking and barge—working together in the public interest to support The Surface Transportation Act of 1971 which would modernize and equalize regulation of surface transportation. And it also is most encouraging that our legislators have acted to reinstitute the investment tax credit which is so necessary in helping to finance modernization and equipment programs for greater productivity.

Rock Island Status—In September, 1971, the Interstate Commerce Commission released the first volume of the hearing examiner's recommended report and order on the merger of the Chicago, Rock Island & Pacific Railroad into the Union Pacific Railroad. This volume and the accompanying syllabus indicate that the full report when issued will recommend, subject to conditions yet to be specified, approval of the 1964 Union Pacific application and the companion application contemplating the purchase, subsequent to the merger, of the southern section of the Rock Island by the Southern Pacific Transportation Company. It is anticipated that litigation may follow the Commission's decision in the case and neither the ultimate resolution of the matter nor the effective date can be forecast at this time.

Outlook—For 1972, we are generally optimistic. We expect to pass the billion dollar milestone in revenues and sales, and earnings will be helped by full-year benefits resulting from the discontinuance of passenger train service and the reinstatement of the investment tax credit. Overall, a good year is in prospect for Union Pacific.

We extend our appreciation on behalf of the Board of Directors to the members of our organization who worked so effectively and diligently to improve our performance in 1971, and to our stockholders, customers, distributors and dealers for their continued support.

Frank E. Barnett
CHAIRMAN OF THE BOARD

James H. Evans
PRESIDENT

Elbridge T. Gerry
CHAIRMAN OF THE EXECUTIVE COMMITTEE

New York, N.Y.
March 14, 1972

Organization

Board of Directors

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

*Frank E. Barnett, Chairman and Chief Executive Officer, New York, N. Y.

*James H. Evans, President, New York, N. Y.

Edd H. Bailey, Retired President, Union Pacific Railroad Company, Omaha, Nebr.

Earl Baldridge, Chairman of the Executive Committee, Champlin Petroleum Company, Fort Worth, Texas

*Courtney C. Brown, Dean Emeritus, Graduate School of Business, Columbia University, New York, N. Y.

W. Dale Clark, Director, World Publishing Company, Omaha, Nebr.

George S. Eccles, President and Chief Executive Officer, First Security Corporation, Salt Lake City, Utah

Walter D. Fletcher, Partner, Davis Polk & Wardwell, New York, N. Y.

Artemus L. Gates, Corporate Director, 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 and Chief Executive Officer, The Omaha National Bank, Omaha, Nebr.

Minot K. Milliken, Vice President and Treasurer, Deering Milliken, Inc., New York, N. Y.

Hamilton B. Mitchell, President and Chief Executive Officer, Dun & Bradstreet, Inc., New York, N.Y.

*George S. Moore, Former Chairman, First National City Bank, New York, N. Y.

John S. Sinclair, Councillor, The Conference Board, Inc., New York, N. Y.

Reginald M. Sutton, Consultant and Retired Executive Vice President, Omaha, Nebr.

Vernon F. Taylor, Jr. Investor, Denver, Colo.

Executive Committee

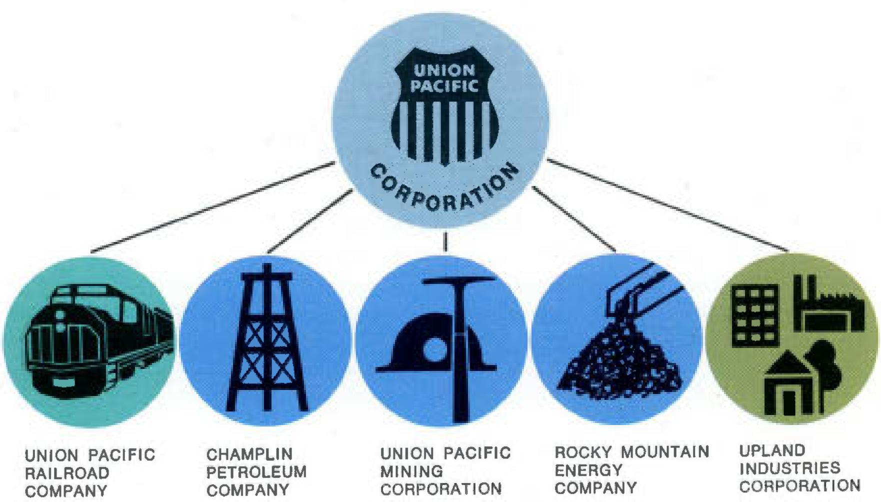
William J. McDonald William S. Cook

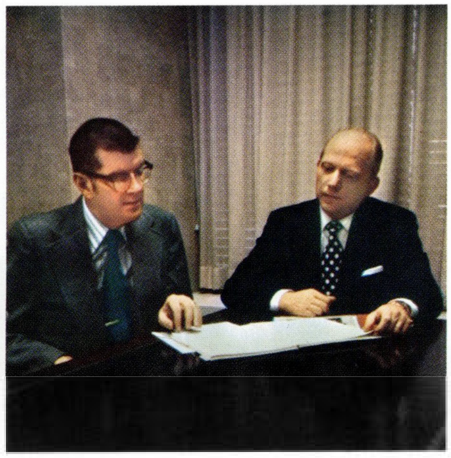
Realigning to Accelerate Growth

In the interest of better managing our several businesses, important changes in Union Pacific's internal organization were made during the year. The Railroad's non-transportation activities in the areas of oil and gas, mining and land development were transferred in the spring of 1971 to the four separate subsidiaries responsible and accountable for specific non-transportation business activities: (1) Champlin Petroleum Company—oil and gas; (2) Union Pacific Mining Corporation—minerals; (3) Rocky Mountain Energy Company—coal; (4) Upland Industries Corporation—land development.

These operating companies, together with the Union Pacific Railroad Company, are now wholly-owned subsidiaries of Union Pacific Corporation.

The new corporate organization is another step in the natural evolution of Union Pacific. It provides a more effective way of maintaining Union Pacific's firm commitment to the best in rail transportation while improving the opportunities to maximize returns from natural resource and land development projects. Strong, efficient and profitable management of each





Harry B. Shuttleworth   Bruce J. Relyea   William P. Raines   Charles N. Olsen

of the five activities requires managerial abilities and emphasis unique to those particular businesses. The new organization, moreover, insulates the Railroad from the relatively higher risk commitments of exploration, drilling and real estate development inherent in the non-transportation activities.

The three natural resources subsidiaries have extensive exploration, development and marketing activities outside of the rail system area. Champlin, for instance, serves a 19-state retail marketing area, the majority of which is outside of the UP system, and its wholesale marketing activities reach as far as New York and Boston.

New Director—Minot K. Milliken, 56, a Senior Officer and Director of Deering Milliken, Inc., was elected a Director of Union Pacific Corporation on June 24, 1971. The vacancy on the Board was created by the retirement of William C. Mullendore after more than 23 years of distinguished service as a Director.

New Officers—John C. Kenefick, 50, formerly Chief Executive Officer—Transportation, succeeded Edd H. Bailey in 1971 as President of the Union Pacific Railroad Company. Mr. Bailey retired after 49 years of active service but continues to serve as a Union Pacific Director. James C. Wilson, 45, formerly Controller—Natural Resources Division—Mining, was elected President of the new Union Pacific Mining Corporation. Lee S. Osborne retired in 1971 as Chief Executive Officer, Natural Resources Division—Mining, after more than 22 years of service.

William P. Raines, 44, was elected to the new position of Vice President—Corporate Relations, Union Pacific Corporation. Among the other executives elected to key positions were: Robert W. Kline, 56, who was elected Executive Vice President—Exploration and Producing Operations, Champlin Petroleum Company; Robert F. Pettigrew, 50, formerly Vice President—Traffic, who was elected to the new position of Vice President—Executive Department of the Union Pacific Railroad Company; and Walter P. Barrett, 46, formerly Vice President—Sales and Service, who was elected Vice President—Traffic of the Railroad.

In addition to strengthening its top management team, the Corporation continues to place strong emphasis on the development of managerial skills at all levels.

Corporate Officers

Frank E. Barnett
Chairman of the Board and Chief Executive Officer

James H. Evans
President

Elbridge T. Gerry
Chairman of the Executive Committee

William S. Cook
Vice President—Finance

William J. McDonald
Vice President and General Counsel

William P. Raines
Vice President—Corporate Relations

Harry B. Shuttleworth
Treasurer

Bruce J. Relyea
Controller

Charles N. Olsen
Secretary

Presidents of Subsidiaries

John C. Kenefick
President, Union Pacific Railroad Company

Roger S. Plummer
President, Champlin Petroleum Company

John W. Godfrey
President, Upland Industries Corporation

James C. Wilson
President, Union Pacific Mining Corporation

John M. Kelly
President, Rocky Mountain Energy Company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UNION PACIFIC

Operations: Transportation

Union Pacific Railroad Company

Transportation Revenues and Operating Income Up in '71 . . . Unit Train Service Increasing . . . Amtrak Under Way . . . Modernization Program Aids Productivity

Union Pacific's performance philosophy is simple to express, a challenge to practice: to keep high-capacity trains, hauled by super-power locomotives, efficiently on the move over a main line track built and maintained to the highest standards in the industry. To this end, the Railroad has invested $874 million in new equipment and facilities over the past six years.

Union Pacific moves its shipments an average of 659 miles versus the national average of about 500 miles. This strength coupled with innovative operations and continual modernization underlies the progress made in 1971 and the future growth of one of America's leading railroads.

Revenues Increased—Overall transportation revenues, assisted by rate increases, rose in 1971 by $22.6 million to $700.5 million, despite the depressed economy and the adverse effects of the rail, coal and dock strikes, which resulted in a 4.2 percent decline in revenue ton-miles.

Freight Operations—Power pooling and run-through trains increasingly benefited freight operations in 1971. Union Pacific pools its locomotives on many trains with seven other railroads to eliminate costly power changes and trains are "run-through" great distances to their destinations. Certain westbound trains, for instance, are made up at North Platte, Nebraska so that they can go straight through to San Francisco without any switching at Ogden, Utah when the trains move from Union Pacific to Southern Pacific track.

A major new trailer/container center at Denver, Colorado was completed during the third quarter. Union Pacific operates 14 of these major intermodal terminals (see map on page 16), and 13 other locations have large intermodal facilities.

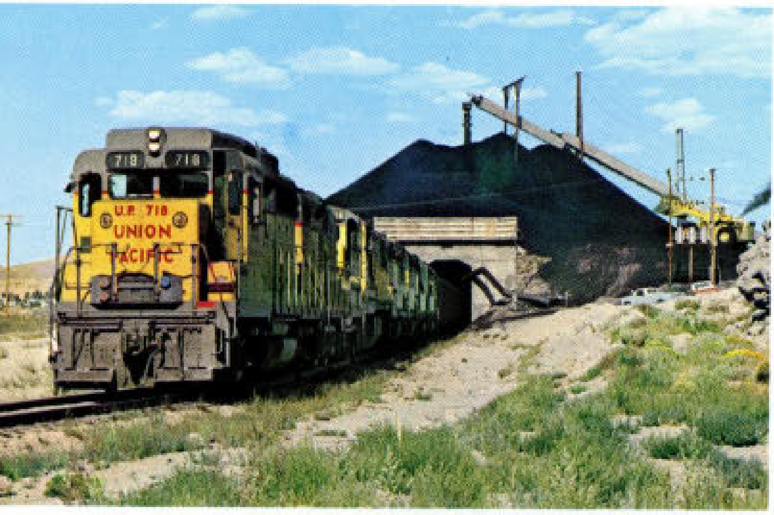
Unit Train Business Grows. Unit trains are moving large volumes of Utah and Colorado coal to California, and Wyoming coal to Wisconsin. The

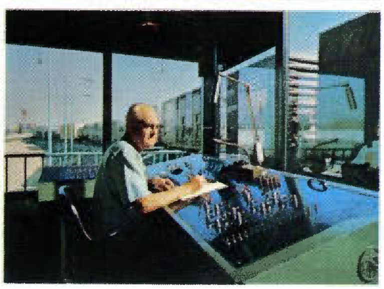
THE RAILROAD INDUSTRY

The year 1971 marked several key developments vital to the sound condition and future growth of the industry—the launching of Amtrak to provide a unified effort in meeting national objectives for intercity rail passenger service while relieving individual railroads from the financial burden of maintaining services no longer in demand... the unprecedented agreement by three different freight transportation modes (railroads, trucks and barges) to support the same legislation, The Surface Transportation Act of 1971 (Hartke-Adams bill), for the ultimate benefit of the public interest... the return of the investment tax credit, which will aid railroads in essential modernization programs . . . and new labor agreements that accept the principle of updating outmoded work rules. All of these factors bear upon increased productivity and profitability, the two major objectives of the railroad industry.

Opposite Page—Major diesel locomotive refueling and car inspection station at Rawlins, Wyo., on an average day handles 37 trains each of which may be a mile or more long. While inspectors check the cars, diesel fuel is pumped into the locomotives at a rate of a thousand gallons a minute.

Left—John C. Kenefick, President of Union Pacific Railroad Company, can be in touch in moments with any of hundreds of points along the main line over private microwave network that extends from Omaha and Kansas City to Los Angeles and Seattle.





Top—Nine thousand tons of low-sulfur Wyoming coal are loaded into hopper cars of Union Pacific unit train which embarks on 5-day round trip to an electric power utility in Wisconsin. (See photo on page 13.)

Bottom left—A new 13-mile track extension completed in 1971 to the Great Salt Lake (in background) enables the Railroad to serve the new $28 million processing plant of Great Salt Lake Minerals & Chemical Corporation.

Middle right—Union Pacific during 1971 completed construction of a major new trailer/container terminal at Denver, Colo.

Bottom right—Computer-assisted controls speed freight classification at Union Pacific's new $2.8 million retarder yard in East Los Angeles, Calif.

midwestern utility market for Wyoming coal has been developing rapidly. Spur tracks are nearing completion at Dana and Hanna, Wyoming to serve two coal producers, Arch Mineral Corporation and Energy Development Company, with unit train shipments into the Midwest. Coal shipments to utilities from these locations in 1972 are estimated at several million tons, with significantly higher shipments anticipated in succeeding years.

Another significant service innovation which was developed to a point of high efficiency in 1971 involves the special train movement of automobile parts and autos. Carloads are dispatched from various origins and made up into a special auto parts/automobile train at an intermediate consolidation point and reforwarded to destination as a single block. Handling in this manner has permitted an extremely fast schedule. This has resulted in significant revenue for the Railroad and benefits to the automobile companies in speed, reliability and savings in inventory costs. The Railroad is participating in these special train movements for both General Motors Corporation and Ford Motor Company.

The Railroad's first export unit ore train began carrying iron ore in October, 1971, from Cima, California to Los Angeles harbor for shipment to the Far East. At a rate of 500,000 tons a year for a five-year period, this program will contribute significantly to freight revenue.

Rate Increases. Effective February 5, 1972, the Interstate Commerce Commission approved the carriers' request for a temporary 2.5 percent emergency surcharge on freight shipments, with certain exceptions, and conditioned upon its expiration on June 5, 1972. It is proposed that the temporary increase will be replaced by a further general increase in freight charges on a selective basis.

Labor Costs Accelerate—Labor expenses increased significantly in 1971. Agreements negotiated during the year, including the largest wage increase package in railroad history, will substantially increase labor expenses in 1972.

The new agreements included general acceptance of the Presidential Emergency Board's recommendations to revise long-outmoded work rules that have inhibited efforts to increase productivity. Although the gradual nature of the implementation of these changes means that they will have little effect on costs in 1972, the principle involved is considered to be invaluable to the future health of the industry and to Union Pacific.

Amtrak Takes Over Intercity Passenger Service—On May 1, 1971, the National Railroad Passenger Corporation (Amtrak) assumed from participating railroads responsibility for providing intercity passenger service. As a participating carrier, Union Pacific consequently discontinued all regularly scheduled passenger service. However, Amtrak contracted with the Railroad for operation of a regularly scheduled train running three times weekly between Denver, Colorado and Ogden, Utah, and for the right to call upon the Railroad to provide additional intercity passenger service desired by Amtrak. To date, Amtrak has called upon the Railroad to operate a few special passenger trains; some between Los Angeles, California and Las Vegas, Nevada and others between Los Angeles and Sun Valley, Idaho. For the first six months of operation, according to the Associated Press, Amtrak's best on-time performance was provided by Union Pacific which ran 94.2 percent of its trains on time.

Most of Union Pacific's former passenger car fleet, one of the best in the industry, has been sold. About 65 cars are being held for conversion to various types of company service cars.

Relief from the passenger train deficits had a favorable effect on net income in 1971 and is expected to have greater impact in future years. As reported to the ICC, losses solely related to Union Pacific's passenger service in 1970 aggregated $21.2 million and on a fully distributed cost basis, $32.8 million. Establishment of a reserve to recognize the cost of joining Amtrak is discussed in the Financial Review on page 21.

New Equipment—Capital expenditures for new equipment by Union Pacific Railroad continued at the substantial level of $99.3 million in 1971. In the past six years, Union Pacific has purchased new equipment at a cost of $741.6 million, including 367 new locomotives and 31,612 new freight train cars—one of the largest programs in the railroad industry.

During 1971, 75 new locomotives and 2,997 freight train cars were delivered, of which 1,100 new freight train cars were built in the Railroad's own shops. The diesels delivered in 1971 included 12 new 6,600-HP, 23 new 5,000-HP and 40 new 3,000-HP road freight locomotives.

The 1972 equipment program currently provides for acquisition of 100 new 3,000-HP diesel locomotives, and 2,287 new freight train cars—including 1,000 covered hopper cars which are much in demand by grain dealers, with an estimated total capital expenditure of $93.2 million.

Property Improvements—During the summer of 1971, construction was completed on the 13-mile Little Mountain branch line in Utah to serve new industries that will be locating at the Bear River Bay area of the Great Salt Lake. The Railroad was assisted in acquiring right of way property by Upland Industries. Service from Hot Springs, Utah was inaugurated in September to a large chemical processing plant, the first of several installations expected in the area.

Major new diesel maintenance and service facilities were completed in April, 1971, at North Platte, Nebraska. The $10 million investment has provided significant savings in operating costs and has improved the availability of locomotives. About 480 diesel locomotives a month undergo maintenance and repair in the shop area, which is about the size of three football fields under one roof. In addition, up to 200 diesel units a day are refueled and serviced at adjacent outdoor facilities. The new complex includes a $250,000 treatment plant which restores waste water to its original quality.

During the third quarter of 1971, a $2.8 million retarder yard with 16 new tracks was completed at East Los Angeles, California. The new yard doubled switching capability in the area, thus permitting more efficient distribution of inbound cars to local industries and faster makeup of eastbound trains.

At the Omaha shops, a $4 million modernization program scheduled to be completed in stages over the next three years will further centralize locomotive maintenance functions by establishing an efficient, modern shop for overhauling and heavy repairing of diesel components.

Maintenance Program—The 1971 maintenance of way program accomplished replacement of 596,500 cross ties, and about 450 miles of rail, including 215 miles of all-welded rail on the main line. Track surfacing and reballasting were completed on more than 900 miles of roadway.

The Railroad's extensive equipment maintenance program in 1971 involved expenditures of $134.3 million, up $4.4 million from 1970. Union Pacific has one of the youngest fleets of locomotives and freight cars in the industry (average age of cars is 11.3 years versus 14.4 for the industry) and the equipment is maintained at peak operating efficiency.

Computer Operations and Systems—Union Pacific significantly augmented its computer capability at Omaha through acquisition and installation of two new IBM 370 computer systems. The Computer Center is organized to provide an integrated management information system encompassing the financial, marketing and operating needs of the business. The financial control systems include responsibility accounting and planning, and procedures for profitability determination. The marketing information systems provide data to evaluate new business opportunities and data used in rate-making. The operating control systems include the **C**omplete **O**perating **IN**formation (COIN) system used to monitor car movements and to provide information concerning railroad operations to 200 locations. Now, with the new IBM 370 equipment operating, the COIN system enters its advanced phase which is designed for real time reporting, analysis, and control of car distribution, allocation of locomotives, and train operations throughout Union Pacific's 9,500-mile rail system. The COIN system will continue to provide car tracing services and administrative message switching.

During 1972, the Railroad will install in the Omaha area its first Univac 9311 Terminal Information System. It will be used for mechanized waybill production and computerization of yard and industrial car inventories.

Operations: Natural Resources The Corporation has three subsidiaries operating in the Natural Resources business area: Champlin Petroleum Company, Union Pacific Mining Corporation and Rocky Mountain Energy Company. Natural Resources sales in 1971 were $265 million, up 7.7 percent or $18.9 million, compared with $246.1 million in 1970.

Champlin Petroleum Company

Sales and Earnings Increased . . . Refineries Upgraded . . . Marketing Areas Expanded . . . Aggressive Exploration Program Maintained

Champlin is a fully-integrated oil company engaged in exploration, development and production of crude oil and natural gas, and refining, processing, transporting and marketing petroleum products. The Champlin growth program includes: enlarging crude oil reserves to reduce dependence on outside sources; expanding and upgrading refineries to higher capacities and broader product mix; and expanding wholesale and retail marketing into new areas.

Petroleum Sales and Income—Gross sales and revenue from oil and gas operations in 1971 were $264.7 million, compared with $246.1 million in 1970. Despite a $6.1 million reserve established in 1971 for an Alaskan North Slope lease, Champlin earnings were improved for the year.

Production—Champlin's production of crude oil and field condensate in 1971 totaled 17.5 million barrels, compared with 18.2 million barrels in 1970. Gains made by a number of new discoveries were not sufficient to compensate for the normal decline in volume of oil and gas produced from mature fields, especially the Wilmington Field in Southern California.

Summary of Production & Refinery Runs	(Daily Average) 1971	1970
Production of crude oil and field condensate, barrels	**48,058**	49,772
Natural gas processed, million cubic feet	**404.5**	421.1
Plant products recovered from gas processed, barrels	**15,018**	15,400
Refinery runs, barrels	**126,238**	117,061
Petroleum product sales, barrels	**128,607**	117,126

As the table shows, refinery production and sales increased significantly in 1971. However, the increases were accompanied by higher refining costs primarily consisting of the increased cost of crude oil, a large portion of which was purchased from outside sources.

THE PETROLEUM INDUSTRY

The petroleum sector of the economy like other industries has had to cope with the general softness in sales and revenues, coupled with the increasing costs of operations during the year 1971. Nevertheless, domestic consumption of oil increased by more than 3 percent during the year.

Looking ahead, the finding of oil reserves that can be economically produced has become increasingly difficult, especially in the Continental United States. Drilling and production costs are increasing markedly due to the greater depths which must be drilled to reach the remaining undeveloped oil reserves. There are promising offshore petroleum reserves within the Continental Shelf to be developed and the industry is confident that it can cope with the environmental problems associated with drilling in these areas. Additionally, there are several very promising international areas where petroleum reserves have been located, although some international areas are not without political problems.

Despite the growth of nuclear power, the demand for energy in this century will be met largely by industries furnishing fossil fuels. There are great opportunities for innovative companies to operate profitably and provide for future growth in these industries. In the refining and marketing segment of the petroleum industry, there are impending challenges with potentially great rewards to those companies willing to try new approaches to the marketplace.

Opposite Page—New installation at Champlin's 45,000-barrels-a-day oil refinery at Enid, Okla., includes catalytic reformer and desulfurization unit, and an isomerization unit not shown, which will enable production of low-leaded and unleaded gasolines following completion in the late spring of 1972.

Left—Roger S. Plummer, President of Champlin Petroleum Company, is augmenting exploration programs to provide a more balanced production position. At the same time, Champlin's marketing activities are being enlarged in both wholesale and retail markets.

Refinery Projects—In 1971, expansion projects completed at the Enid, Oklahoma and Corpus Christi, Texas refineries resulted in raising crude oil and condensate processing capacity by approximately 8,000 barrels a day. Additionally, new installations will be completed during the second quarter of 1972 at both refineries which will allow even higher volumes of production. The facilities also will enable Champlin to produce low-leaded and unleaded gasolines. As a result, Champlin will be in a position to take immediate advantage of the marketing opportunities that are expected to arise from environmental requirements for the reduction of lead in gasoline.

Top—Champlin owns a 50 percent interest in certain producing acreage within the Big Wells Field, about 75 miles southwest of San Antonio, Tex.

Bottom left—In Oklahoma, Texas and Wyoming, Champlin operates six natural gas plants that process more than 400 million cubic feet of gas a day.

Bottom right—Drilling operations on derrick floor of a well in Peoria Field, Colo., about 40 miles east of Denver on Land Grant lands. Exploration and development by Standard Oil of Indiana and Champlin have helped to make Peoria the second largest Colorado oil field in rate of production.

Marketing—During the early summer of 1971, Champlin began making wholesale shipments of refinery products to purchasers on the Atlantic Seaboard. A chartered 30,000-ton tanker operates on a regular schedule from the Corpus Christi refinery to New York and Boston carrying over 10 million gallons per trip of products varying from gasoline to heating oils.

The Champlin brand entered four new states in 1971—Illinois, Indiana, Kentucky and Michigan—and Champlin gasoline is now marketed by jobbers and dealers in 19 states. Jobber volume increased 8.8 percent in 1971 and the direct dealer volume was equivalent to the prior year. Champlin has substantially increased the average number of gallons sold monthly per station. A new Champlin identification insignia and a new station design are being introduced on a programmed basis.

Pipeline Operations—The Calnev Pipe Line Company, a wholly-owned interstate carrier, delivered 13.6 million barrels of petroleum products in 1971, up from 12 million barrels in 1970. Jet fuel and gasoline are the major products moved through the 248-mile pipeline which runs from Colton, California to Las Vegas, Nevada.

Expansion of capacity by installation of additional pumping facilities enabled Champlin to increase the average daily throughput in its 600-mile Oklahoma to Iowa petroleum products pipeline from 22,620 barrels in 1970 to 25,445 barrels in 1971.

Exploration and Development—Champlin's $38.6 million exploration and development program in 1971 included drilling activity in 15 states and Canadian provinces. Offshore activity included seismic exploration in U.S. waters and participation in a group which is negotiating for exploration licenses in the highly promising North Sea area. Champlin participated in 70 exploratory tests in 1971, resulting in 11 discoveries for a 16 percent wildcat success ratio. It drilled 186 development wells, of which 150 proved to be producers, for a development success ratio of 81 percent. Compared with 1970, both ratios were improved.

In 1969, Union Pacific signed a major sale agreement with Amoco Production Company (a subsidiary of Standard Oil of Indiana) granting that company the right to acquire oil and gas leases on 75 percent of some 6.8 million acres of the land in which Union Pacific holds mineral rights. To date, Amoco has drilled 694 wells which have resulted in a total of 158 successful oil and gas wells.

Under terms of the agreement, Union Pacific has received $9 million for the first three-year period and is receiving royalties on production from lands leased to Amoco. Union Pacific retained the oil and gas rights in one quarter of each section of its land involved in this agreement and Champlin has drilled 15 successful wells on the retained acreage. The most significant area of discoveries thus far is at Peoria Field, east of Denver, which is now almost fully developed.

Union Pacific Mining Corporation

Market Growth for Natural Soda Ash Spurs Trona Production
. . . Uranium Exploration Expanded

The Mining Corporation is responsible for exploration and development of trona, uranium and other minerals. Trona, the ore from which natural soda ash is obtained, is found in extensive deposits in Wyoming in the Land Grant area. The Company's reserves are being developed by Stauffer Chemical Company of Wyoming (49 percent owned by Union Pacific Mining Corporation) and FMC Corporation. Allied Chemical Corporation mines trona in Federally-owned sections and is negotiating mining leases with Union Pacific. Construction under way or planned by the three producers which ship their products on the Union Pacific Railroad will increase their annual soda ash production capacity from 2.8 million tons to about 5 million tons. *Natural* soda ash, used in the manufacture of glass, soap, alkaline cleaners and in other inorganic chemical applications, is in growing demand because of environmental problems which affect the manufacture of *synthetic* soda ash.

Union Pacific Mining Corporation is engaged in an exploration program for uranium in Wyoming and other U.S. areas under an agreement with Southern California Edison. The latter will receive a half-interest in any new discoveries in return for funding the exploration program.

Rocky Mountain Energy Company

Outlook for Low-Sulfur Coal Development Continues To Improve

Union Pacific has very substantial surface and underground low-sulfur coal reserves in Wyoming, Utah and Colorado. Rocky Mountain Energy Company, a subsidiary of Union Pacific Corporation, is responsible for the development of these reserves and is conducting continuing studies on production methods and costs in several areas in Wyoming. These studies are correlated to the requirements of potential electric utility customers and others. Royalties are also received on coal lands leased to other producers.

Rocky Mountain Associated Coal Corp., an independent coal producer in which coal subsidiaries of Union Pacific and Eastern Gas & Fuel Associates each hold a 50 percent interest, is mining coal in Wyoming for a midwestern utility and is examining opportunities for other mines in the West to produce coal for sale in domestic utility markets.

THE MINING INDUSTRIES

The mining industries with which Union Pacific is involved—coal, trona, uranium and other minerals—require long lead times between the beginning of exploration and the actual production of materials for delivery. Opportunities exist partly *because* of inherent problems such as the nation's ever-diminishing energy resource base. When deposits of real merit are found and development is properly scheduled, the return is generally high and the economic life is long.

Substantially greater tonnages of coal, our most abundant conventional energy resource, will be needed to meet the nation's fuel requirements for electric power generation for many years to come. Moreover, with environmental standards becoming more stringent, the market for low-sulfur western coal is growing significantly. As economical large scale coal gasification processes are developed, the overall demand for coal will rise even more.

Far left—James C. Wilson, President of Union Pacific Mining Corporation, studies geologic maps at his new headquarters in Denver, Colo. His program for minerals includes development of resources on land where the Company owns mineral rights and partnership ventures to share funding of exploration in new areas.

Left—The world's largest known deposit of trona is found in Wyoming on lands about half of which are owned by Union Pacific. With thick trona beds, effective use is made of large cutting and loading machines. Shipments of natural soda ash produced from trona provide Union Pacific with substantial freight revenue as well as mining income and royalties.

Above—Union Pacific unit train with shipment of 9,000 tons of low-sulfur coal completes 1,300-mile journey from Wyoming coal fields to a Wisconsin utility. (See photo on page 8.)


UNION
PLAZA

Operations: Land

Upland Industries Corporation

Development of Industrial Parks Continues . . . Union Plaza Hotel Complex Completed . . . Residential Projects Enter Second Stage of Development

Although Upland Industries Corporation increased its gross income from real estate sales and lease rentals in 1971, sales and net income decreased. Sales and income were adversely affected by the reluctance of many businesses to commit capital for new projects in the sluggish economic conditions that prevailed, especially in Southern California and in the Northwest.

Industrial Property Development—Upland Industries assists western states in attracting industry and aids businesses in selecting and developing desirable locations for plants, distribution centers and other facilities. An inventory of about 17,000 acres of prime industrial property is maintained for sale or lease. Upland also manages 871,000 acres of Land Grant properties owned in fee.

One of Upland's goals is to bring industries to Union Pacific sites, thereby generating freight traffic for the Railroad. Despite slow economic conditions, 168 firms, that will produce annual traffic revenues estimated at more than $6 million, selected sites in 1971 along the rail system. An important part of Upland's program is the creation of rail-served industrial parks at key centers along the system. These parks are fully developed with access roadways, grading, utilities and drainage systems.

Hotel Completed—The Union Plaza Hotel complex at Las Vegas, Nevada, constructed on the site of an unused passenger terminal, was completed during August, 1971, and is being successfully operated by a long-term lessee. The complex, owned by Upland, includes a 500-room hotel overlooking downtown Las Vegas, a 700-car parking facility and a bus depot.

Residential Development—A depressed economy in Southern California had a dampening effect on the housing market there. Hence, construction timetables were stretched out on several Upland residential projects.

In 1971, the first section of 297 apartments was completed in the 3,500-apartment-unit Fox Hills complex at Culver City, California. Model apartments were opened in the first section and rental operations were under way by the end of the year. The remainder of the Fox Hills project will be completed in stages over the next several years.

To stimulate interest in its residential project at Whittier, California, Upland constructed 36 homes in 1971 and is seeking to interest builders in developing the remainder of the 222-acre site.

Increased marketing activities coupled with an improved economy are expected to contribute to the volume of sales and leases during 1972 of prime properties in California, Colorado, Nebraska and Oregon.

Top left—A beautifully-landscaped pathway in the center courtyard of recently completed apartments built by Upland Industries at Fox Hills in Culver City, Calif. *Top right*—Renting agent shows a young couple a model apartment.

Center left—Construction of the 500-room Union Plaza Hotel in Las Vegas, Nev., was completed in 1971 by Upland Industries. The hotel and adjacent properties were leased to an independent operator. *Center right*—Registration area of the main lobby. Since opening in August, the hotel has averaged better than 90 percent occupancy.

Bottom left—Upland Industries sells fully developed tracts at choice industrial sites. Land is graded, roadways are paved, utilities are provided and, as shown at Upland's Denver, Colo. industrial park, drainage systems are installed.

Bottom right—Aerial view of industrial property at Union Pacific-served harbor site in Long Beach, Calif., where imported autos are received.

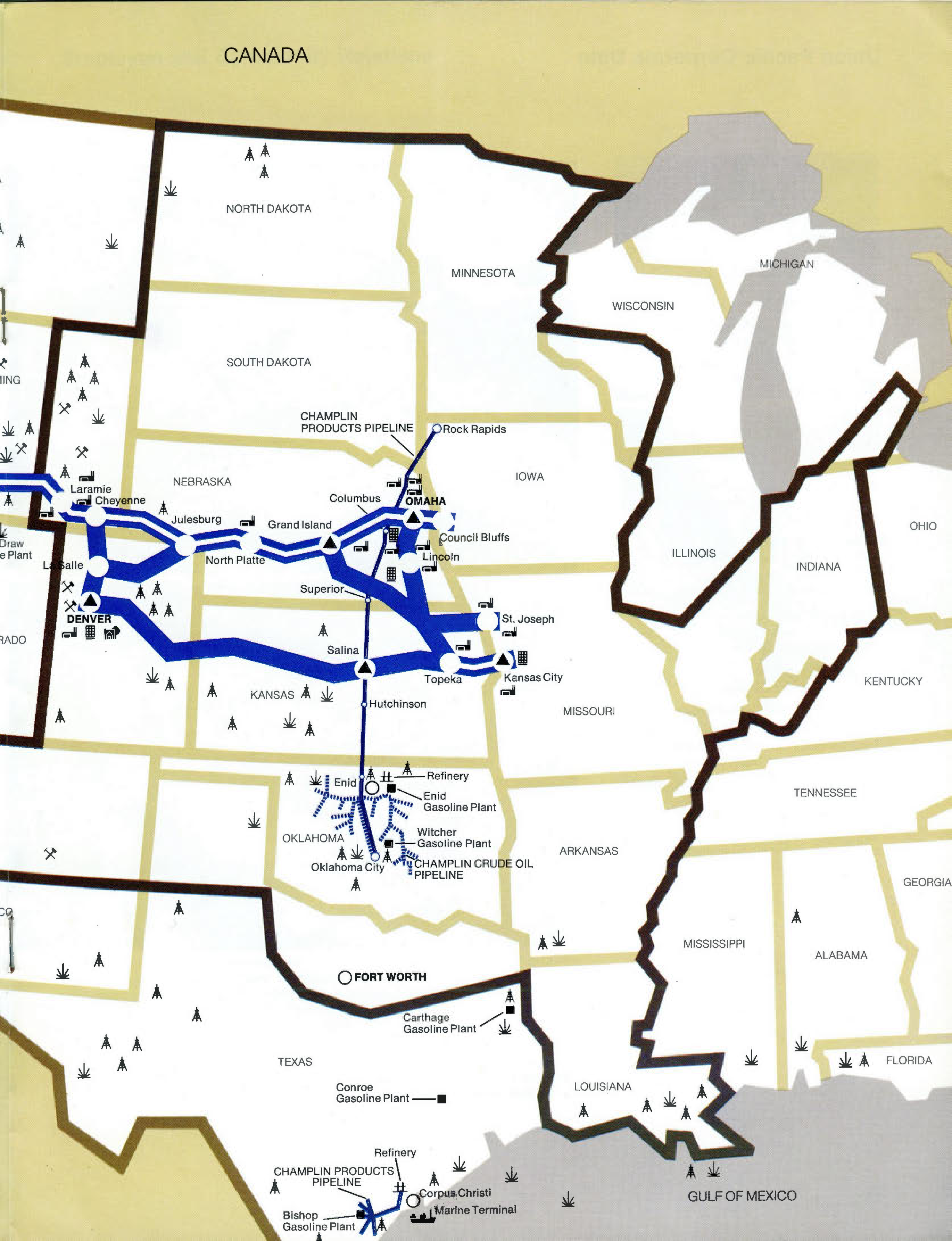
REAL ESTATE AND LAND DEVELOPMENT

Since the late 1860's when the dream of a transcontinental railroad was becoming a reality, Union Pacific has been deeply involved in land development. Towns were laid out for settlers and in later years, as the population grew, the emphasis turned to industrial development to supply the needs of the growing West.

Today, residential and commercial real estate ventures again have become important facets of UP land activities. Choice sites for commercial centers, hotels, apartments and homes are developed, and in many instances buildings are constructed for subsequent sale, lease or rental. Although both industrial and residential land markets in the West were soft in 1970-71, an upward trend appears to be emerging, particularly in commercial and industrial real estate.

John W. Godfrey, President of Upland Industries Corporation, is responsible for Union Pacific's real estate and land activities. During the last several years, prime commercial and residential properties, in addition to choice industrial sites, have been acquired for development.


ALASKA
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
WASHINGTON
OREGON
IDAHO
MONTANA
NEVADA
CALIFORNIA
UTAH
ARIZONA
NEW MEXICO
WYOMIN
COLORA
MEXICO
PACIFIC OCEAN
Seattle
Tacoma
Yakima
Spokane
Eastport
Portland
Hinkle
La Grande
Butte
West Yellowstone
Boise
Idaho Falls
Twin Falls
Pocatello
McCammon
Wells
Granger
Ogden
Rock Springs
Salt Lake City
Patrick Dr
Gasoline
Las Vegas
CALNEV PIPE LINE
Los Angeles
Wilmington Beneficiation Plant
Long Beach
UNION PACIFIC
UNION PACIFIC CORPORATION
Areas of Petroleum Drilling Activity
Areas of Seismic Activity
Areas of Mineral Activity
Areas of Coal Activity
Union Pacific Railroad Single Track Line
Union Pacific Railroad Double Track Line
Major Intermodal Trailer–Container Terminals
Commercial Property
Industrial Property
Residential Property
Champlin Retail Marketing Area
Product Pipelines
Crude Pipeline
Refineries


CANADA
NORTH DAKOTA
MINNESOTA
MICHIGAN
WISCONSIN
SOUTH DAKOTA
CHAMPLIN
PRODUCTS PIPELINE
Rock Rapids
IOWA
NEBRASKA
Laramie
Cheyenne
Julesburg
Grand Island
Columbus
OMAHA
Council Bluffs
Lincoln
North Platte
La Salle
Draw
e Plant
ING
DENVER
RADO
Superior
St. Joseph
Salina
Topeka
Kansas City
KANSAS
Hutchinson
ILLINOIS
INDIANA
OHIO
KENTUCKY
MISSOURI
Enid
Refinery
Enid
Gasoline Plant
OKLAHOMA
Witcher
Gasoline Plant
Oklahoma City
CHAMPLIN CRUDE OIL
PIPELINE
TENNESSEE
ARKANSAS
GEORGIA
MISSISSIPPI
ALABAMA
FORT WORTH
Carthage
Gasoline Plant
TEXAS
Conroe
Gasoline Plant
LOUISIANA
FLORIDA
Refinery
CHAMPLIN PRODUCTS
PIPELINE
Corpus Christi
Marine Terminal
Bishop
Gasoline Plant
GULF OF MEXICO

Union Pacific Corporate Data

EXECUTIVE OFFICES
345 Park Avenue, New York, N. Y. 10022
Phone: (212) 593-1700

OPERATING GROUPS
Transportation
Union Pacific Railroad Company,
1416 Dodge Street, Omaha, Nebr. 68102

Oil and Gas
Champlin Petroleum Company,
5301 Camp Bowie Blvd.,
Fort Worth, Texas 76107

Land
Upland Industries Corporation,
554 Continental Bldg., Omaha, Nebr. 68102

Minerals
Union Pacific Mining Corporation,
4704 Harlan Street, Denver, Colo. 80222

Coal
Rocky Mountain Energy Company,
Suite 900, 621-17th Street,
Denver, Colo. 80202

TRANSFER AGENT
Union Pacific Corporation
120 Broadway, Room 2849,
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—UNP

INCORPORATION
Incorporated February 3, 1969 under the laws of the State of Utah

ANNUAL MEETING OF STOCKHOLDERS
May 9, 1972—12:00 Noon, Hotel Utah,
Salt Lake City, Utah
The proxy statement and form of proxy will be mailed in early April, 1972.

Top— Union Pacific's Historical Museum at Omaha, which stockholders are especially invited to visit, was enlarged in 1971 when spacious quarters in the new office building addition were added to its original rooms. Besides displaying a large collection of railroad and pioneer memorabilia, the Museum has a distinguished collection of Lincolniana.

Bottom—Contrasting with the relics of history in the Museum is one of two new IBM 370 computer systems purchased in 1971. The new equipment, installed at the Computer Center in Omaha, enables Union Pacific to move into the advanced phase of its real time computer reporting and microwave communication system.

Employee and Community Relations

Employment by Union Pacific Corporation and its consolidated subsidiaries averaged 30,902 during 1971, compared with 32,097 in 1970. The reduction was due both to the restructuring of several operations for greater efficiency and the cessation of all of the Railroad's own regularly scheduled passenger service. Salaries, wages and employee benefits totaled $377.2 million in 1971, compared with $370.0 million in 1970. The 1971 change was due primarily to wage increases granted under labor agreements.

Personnel Development—The Corporation has several programs designed to encourage employees to prepare themselves for positions of increasing responsibility and to help new employees qualify for specialized positions through on-the-job training.

Each year executives are selected to attend university advanced management programs at Harvard, Stanford or Columbia. The study programs range from about two to thirteen weeks in duration.

Union Pacific Railroad created a new training section in 1971 which is responsible for planning and coordinating its growing personnel development programs. During the year, more than 100 managers participated in the formal Supervisory Management Course, which consists of a series of presentations and seminars in cooperation with Creighton University at Omaha. On-the-job training includes areas such as skilled crafts, technicians, data processing and train operations. In 1971, 285 new employees completed the formal Switchman Training Program and 232 employees participated in the Apprentice Training Program for machinists, electricians and other skilled workers in the Railroad's shops.

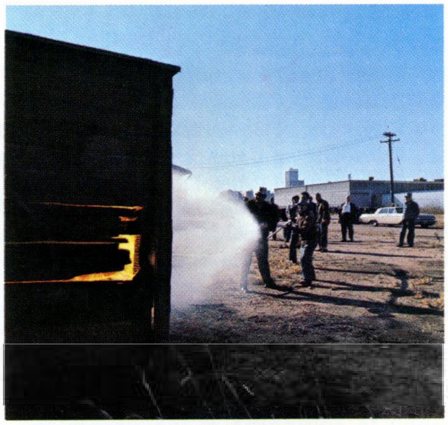
Champlin Petroleum Company also has a program of training seminars for managers. In 1971, 51 members of senior and middle management participated in seminars that covered topics such as methods of increasing employee effectiveness, analysis of operating problems and the decision-making process and business principles useful in market penetration.

In 1971, 263 Union Pacific people were assisted each semester by the Company's Tuition Aid Program in which the employee is reimbursed for part of the costs of tuition, books and fees. Besides college degree programs, employees also are enrolled in developmental courses of instruction designed to improve their job-related skills.

Scholarship Awards—The Railroad offers two scholarships in each of about 200 counties it serves to members of 4-H Clubs and Future Farmers of America. In 1971 there were 287 scholarship winners. Since the program's inception in 1921, there have been 11,260 awards to assist farm youth in furthering their education.

Champlin Petroleum awarded nine university scholarships during 1971 for studies relevant to its operations, especially in engineering, business and geology.

Union Pacific Foundation—The purpose of the Foundation is to fulfill the obligations of good corporate citizenship, primarily in the states from which Union Pacific receives so many benefits. Assistance is granted to colleges and universities, hospitals, health research, human welfare and cultural activities. During the past five years, the Foundation has made grants totaling nearly $5 million in these areas.



Top—Fire safety training programs conducted by the Company include firefighting practice sessions under controlled conditions, as in this practice for workers at the Omaha shops.

Bottom—Managers sharpen their skills at specialized seminars conducted or sponsored by the Company. This five-day seminar for Champlin managers from its Exploration, Production, Transportation and Marketing Departments emphasized techniques in problem solving and decision making.

Financial Review

FINANCIAL INDEX

Record Earnings Before Extraordinary Item . . . Record Revenues and Sales . . . Higher Cash Flow . . . Reserve Established for Amtrak Costs . . . Capital Expenditures Invested in Future Growth

Record Earnings, Revenues and Sales—The Company achieved a 13.7 percent increase in income in 1971, before the $65.1 million extraordinary charge for entry into the Amtrak program. Earnings were $90.7 million, an increase of $11.0 million over the 1970 total of $79.7 million. Earnings per share were $4.03, compared with $3.56 in 1970. Gross revenues and sales attained a record high of $977.2 million in 1971, an increase of 4.3 percent or $39.9 million. The contributions to net income, before the extraordinary Amtrak cost, and to gross revenues and sales by each of the Company's operating groups are shown in the tables below.

Summary of Net Income* by Operating Groups

(Thousands of Dollars)	1971	1970	Change
Transportation	**$77,082**	$66,755	$10,327
Natural Resources	**21,339**	21,567	(228)
Land	**2,504**	3,140	(636)
Other Corporate Charges	**(10,259)**	(11,714)	1,455
*Net Income**	**$90,666**	$79,748	$10,918

* Before extraordinary item

Summary of Gross Revenues and Sales By Operating Groups

(Thousands of Dollars)	1971	1970	Change
Transportation Revenues	**$700,469**	$677,848	$22,621
Natural Resources Sales	**264,972**	246,074	18,898
Land Sales and Rentals	**11,800**	13,423	(1,623)
Gross Revenues and Sales	**$977,241**	$937,345	$39,896

Transportation income before the extraordinary item was 15.5 percent higher in 1971 on an increase in transportation revenues of only 3.3 percent. Freight volume on a ton-mile basis was strong during the first six months of the year, but volume in the second half was hurt by the 18-day whipsaw strike by the United Transportation Union, the 100-day strike by West Coast longshoremen and the 43-day strike by coal miners. The rail strike alone penalized earnings by approximately $7 million, or $.33 a share, after deducting proceeds from strike insurance of $11.6 million. During the fourth quarter freight volume rebounded, especially in forest products, autos and trucks, and fruits and vegetables.

Transportation profits benefited from cost efficiencies obtained through plant and equipment modernization, discontinuance of passenger service, and from improved freight rates.

Natural Resources sales increased 7.7 percent in 1971, primarily due to greater oil refining capacity and expanded marketing of petroleum products. Natural Resources income in 1971 was slightly below the prior year. The contribution from petroleum operations, however, was above the 1970 level, despite increases in the price of purchased crude oil, significant price competition at the retail level and the establishment of a $6.1 million reserve for possible losses applicable to the Company's remaining investment in a lease on the North Slope of Alaska. In 1970, a reserve of $4.5 million was established for the other five of the six leases acquired in 1969, based on evaluation of drilling results which indicated doubtful value, and reserves have now been established for all of the Company's investment in North Slope leases.

Natural Resources results were affected also by non-recurring organizational and moving costs in relocating the Mining Corporation's offices from Los Angeles to Denver, and by start-up costs for Rocky Mountain Energy Company coal mining activities.

The decrease in Land income and sales in 1971 was due principally to the effect of sluggish economic conditions on sales of industrial property, especially in the Northwest and Southern California. Income from rental properties increased about 10 percent in 1971, with the new hotel complex in Las Vegas an important factor.

Acquisition of Minority Interests—The outstanding publicly-held stock of Union Pacific Railroad Company (5.8 percent of common stock and 9.3 percent of preferred stock) was acquired by the Corporation on June 25, 1971, in an exchange of securities on a share for share basis. Accordingly, consolidated net income has been restated for the period prior to the effective date of the exchange.

Interest Costs—Interest costs declined $4.3 million, to $35.4 million. The decrease reflects a reduction in the average amount of debt outstanding during 1971 compared with 1970 and a lower average level of interest rates.

A significant factor in the reduction of interest expense was the $80 million prepayment and the $40 million favorable refinancing of the 9 percent installment obligations applicable to the purchase of Champlin Petroleum Company in 1970. (Financing arrangements are discussed on this page under "Borrowings.")

Federal Income Taxes—Current Federal income taxes totaled $16.5 million in 1971, compared with a credit of $3.8 million in 1970. The increase of $20.3 million was attributable to higher taxable income in 1971 and a $4.9 million reduction in investment tax credits.

Reinstatement of the investment tax credit late in 1971 benefited earnings by approximately $4 million in 1971 and is expected to have substantially greater effect in future years.

Extraordinary Item—Amtrak—Net income after the extraordinary Amtrak cost in 1971 was $25.6 million or $1.13 per share. The extraordinary charge to income of $65.1 million or $2.90 a share, after applicable Federal income taxes, represents establishment of a reserve which recognizes the current and future cost of entry by Union Pacific Railroad into the National Railroad Passenger Corporation's (Amtrak) intercity passenger service program. The $116.6 million cost before Federal income taxes is comprised of the $18.8 million entry fee into the program, a write-off of $36.0 million of investment in passenger facilities and equipment, $59.2 million to provide payments for severance and wage protection to Union Pacific employees who may be adversely affected by the Amtrak program and $2.6 million applicable to joint facilities and various other costs. Cash savings from operations during the year more than offset cash requirements of the reserve. Positive cash flow from entry into Amtrak is also expected in all future years.

Higher Operating Cash Flow—During 1971, Union Pacific's cash flow from operations amounted to $221.4 million. These internally-generated funds permitted the Company to maintain its level of dividend payments to stockholders, repay a large amount of outstanding indebtedness, and finance much of the plant modernization and equipment that is necessary to provide for future growth.

Capital Investment—Net investment in properties at year end amounted to $2.1 billion, an increase of $30.6 million over investment at December 31, 1970.

To provide for increased operating efficiency and future growth, Union Pacific Corporation spent $178.7 million in 1971 to continue its historically high level of capital improvements.

Gross capital expenditures for Transportation were $127.1 million. This total includes $99.3 million for acquisition of locomotives and freight train cars and $27.8 million for improvements to road property, including purchase of new roadway machines designed to produce greater efficiency through advanced mechanization of track maintenance. The $10 million locomotive maintenance and servicing facility at North Platte, Nebraska was placed in service during April, 1971 and has resulted in significant savings in operating costs and increased availability of motive power.

Natural Resources capital expenditures amounted to $41.7 million. They related principally to increased crude charge capacity at the Enid, Oklahoma and Corpus Christi, Texas refineries; new facilities to enable production of low-leaded and unleaded gasolines at those locations; successful oil and gas wells; and secondary recovery operations.

Gross capital expenditures for Land were $9.8 million in 1971, principally in connection with the completion at Las Vegas of the $10.5 million hotel.

Borrowings—Debt outstanding at year end totaled $707.4 million, down $52.5 million from year-end 1970. Of the total, $162.9 million consisted of short-term debt and $544.5 million of long-term debt. The decrease reflected the repayment of the $120 million installment obligation incurred in the purchase of Champlin Petroleum Company, and $28 million in equipment obligations. This was partially offset by the refinancing of $40 million of the Champlin obligation at lower interest rates and the financing of $55 million in new equipment acquisitions.

In February, 1972, the Railroad issued $28 million of equipment trust certificates to finance a portion of the equipment acquisitions planned for 1972.

Bank credit lines at December 31, 1971 amounted to $265 million, an increase of $40 million over the prior year end and amounts borrowed at year-end 1971 totaled $190 million. Credit lines available in the form of revolving agreements subsequent to year end totaled $190 million, of which $90 million expires on March 31, 1974, and $100 million on March 31, 1975.

Dividends and Stockholders—Dividends paid on common stock during 1971, amounting to $2.00 per share, represented 49.5 percent of income before the extraordinary Amtrak item.

As of December 31, 1971, 22,470,893 shares of common stock were outstanding, held by 80,472 stockholders of record. At the same date, there were 2,524 owners of 678,480 shares of 4¾ percent convertible preferred stock series A, which was issued in 1971 in exchange for the outstanding minority shares of Union Pacific Railroad Company's 4 percent preferred stock. The $68 million principal amount of 4¾ percent convertible debentures outstanding at the close of the year was held by 10,786 owners of record.

Statistical Supplement

A supplemental report showing financial and statistical data of Union Pacific Railroad Company will be published in late April, 1972. If you would like to have a copy, write to: Controller, Union Pacific Corporation, 345 Park Avenue, New York, N.Y. 10022.

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, 1971 and 1970 and the related statements of consolidated income, consolidated retained income and consolidated changes in financial position for the two years ended December 31, 1971. 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. We did not examine the financial statements of Champlin Petroleum Company and Subsidiaries (Champlin) included in the consolidation for 1971 and 1970, which statements reflect total assets and revenues constituting 10% and 27%, respectively, at December 31, 1971 and 7% and 22%, respectively, at December 31, 1970 of the related consolidated totals. These statements were examined by other accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Champlin is based solely upon the report of the other accountants.

In our opinion, based upon our examination and the report of other accountants, the accompanying consolidated financial statements present fairly the financial position of the Union Pacific Corporation and its Subsidiary Companies at December 31, 1971 and 1970 and the results of their operations and the changes in their financial position for the two years ended December 31, 1971, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 25, 1972

Statement of Consolidated Income

	1971	1970
	(Thousands of Dollars)	
Revenues and Sales:		
Transportation revenues	$ 700,469	$ 677,848
Sales (Note 3)	276,772	259,497
Total	977,241	937,345
Operating Costs:		
Salaries, wages and employee benefits	369,873	361,778
Crude oil and other petroleum raw materials	128,934	112,384
Material and supplies	109,268	94,180
Depreciation, depletion and retirements	102,866	104,534
State and local taxes	34,433	32,938
Other operating costs (Note 3)	80,455	92,184
Total	825,829	797,998
Net Operating Income	151,412	139,347
Other Income—Net	23,815	14,668
Interest Expense	(35,377)	(39,719)
Income Before Extraordinary Item and Federal Income Taxes	139,850	114,296
Federal Income Taxes (Note 6):		
Current (Net of investment tax credit: 1971, $5,589; 1970, $10,454)	16,499	(3,835)
Deferred	32,685	38,383
Income Before Extraordinary Item	90,666	79,748
Extraordinary Item, Amtrak Costs Net of Applicable Federal Income Taxes (Note 2)	(65,061)	—
Net Income (Note 1)	$ 25,605	$ 79,748
Earnings Per Share (Note 13):		
Assuming No Dilution:		
Income before extraordinary item	$4.03	$3.56
Extraordinary item	(2.90)	—
Net Income	1.13	3.56
Assuming Full Dilution:		
Income before extraordinary item	3.89	3.44
Extraordinary item	(2.74)	—
Net Income	1.13	3.44

Statement of Consolidated Retained Income

	1971	1970
	(Thousands of Dollars)	
Balance at Beginning of Year (Note 1)	$1,230,479	$1,195,589
Net Income for the Year	25,605	79,748
	1,256,084	1,275,337
Dividends Declared		
4¾% Convertible preferred stock, series A	139	—
Common stock—$2.00 per share	44,903	44,858
	45,042	44,858
Balance at End of Year (Note 7)	$1,211,042	$1,230,479

The accompanying accounting policy disclosures and notes to financial statements are an integral part of these statements.

Consolidated Balance Sheet

Assets

	(Thousands of Dollars) December 31, 1971	December 31, 1970
Current Assets		
Cash	**$ 54,526**	$ 52,596
Temporary cash investments, at cost, which approximates market	**142,825**	188,528
Accounts receivable	**131,457**	143,504
Inventories (Note 3)	**90,038**	75,843
Other current assets	**17,029**	16,799
Total Current Assets	**435,875**	477,270
Investments (Note 4)		
Investments in affiliated companies, at cost	**34,685**	32,348
Other investments, at cost	**82,105**	77,356
Reserve for adjustment of investments in securities	**(16,274)**	(17,488)
Land held for future development, at cost	**60,875**	56,752
Investments—Net	**161,391**	148,968
Properties (Notes 5 and 7)		
Transportation property:		
Road	**986,647**	974,544
Equipment	**1,317,840**	1,304,344
Other transportation property	**9,257**	10,191
Total transportation property	**2,313,744**	2,289,079
Oil and gas property	**445,784**	422,542
Other property	**58,186**	58,546
Less—reserves for depreciation, depletion, and amortization	**(745,679)**	(728,696)
Properties—Net	**2,072,035**	2,041,471
Excess of Investment in Consolidated Subsidiaries Over Equities in Recorded Net Assets	**72,085**	72,186
Other Assets and Deferred Charges	**23,658**	41,800
Total Assets	**$2,765,044**	$2,781,695

The accompanying accounting policy disclosures and notes to financial statements are an integral part of this statement.

Liabilities and Stockholders' Equity

	December 31, 1971 (Thousands of Dollars)	December 31, 1970 (Thousands of Dollars)
Current Liabilities		
Notes payable	$ 128,000	$ 125,800
Accounts and wages payable	50,598	61,889
Accrued liabilities:		
Federal income taxes (Note 6)	7,166	—
Taxes—other than Federal income taxes	22,798	20,201
Interest	8,965	16,089
Other accrued liabilities	78,524	69,088
Dividends payable	11,800	11,720
Long-term debt due within one year	34,849	61,785
Other current liabilities	7,946	11,334
Total Current Liabilities	350,646	377,906
Long-Term Debt Due After One Year (Note 7)	544,548	572,325
Deferred Federal Income Taxes (Note 6)	250,007	259,673
Casualty and Other Reserves (Note 2)	98,675	34,777
Other Liabilities and Deferred Credits (Note 1)	27,656	32,547
Stockholders' Equity		
Preferred stock—no par value, authorized 10,000,000 shares; convertible preferred, series A, $10 stated value, 678,480 shares outstanding (Note 12)	6,785	—
Common stock—$10 par value, authorized 30,000,000 shares, outstanding 22,470,893 shares (22,429,235 in 1970) (Notes 9 and 12)	224,709	224,292
Paid-in surplus	50,976	49,696
Retained income (Notes 1 and 7)	1,211,042	1,230,479
Stockholders' Equity	1,493,512	1,504,467
Total Liabilities and Stockholders' Equity	$2,765,044	$2,781,695

The accompanying accounting policy disclosures and notes to financial statements are an integral part of this statement.

Statement of Consolidated Changes in Financial Position

	1971	1970
	(Thousands of Dollars)	
Source of Funds		
Operations:		
Income before extraordinary item	**$ 90,666**	$ 79,748
Charges not requiring current outlay of working capital:		
Provision for deferred Federal income taxes (Note 6)	**32,685**	38,383
Depreciation and other non-cash charges (Note 5)	**98,017**	100,240
Total working capital provided by operations	**221,368**	218,371
Proceeds from long-term financing (Note 7)	**93,350**	228,479
Long-term financing relating to purchase of Champlin Petroleum Company	**—**	80,000
Working capital acquired from purchase of Champlin Petroleum Company	**—**	32,833
Other items net	**11,364**	9,083
	326,082	568,766
Application of Funds		
Dividends declared	**45,042**	44,858
Reduction of long-term debt	**116,489**	40,709
Capital expenditures:		
Transportation	**127,119**	163,849
Natural Resources	**41,738**	38,839
Land (Notes 3 and 4)	**9,829**	21,872
Purchase of Champlin Petroleum Company	**—**	240,000
	340,217	550,127
Net (decrease) increase in working capital	**(14,135)**	18,639
Working capital at beginning of year (Note 3)	**99,364**	80,725
Working capital at end of year	**$ 85,229**	$ 99,364
Components of (Decreases) Increases in Working Capital		
Cash and temporary cash investments	**$ (43,773)**	$ 41,368
Accounts receivable	**(12,047)**	46,235
Inventories	**14,195**	27,652
Accounts and wages payable	**11,291**	(29,795)
Short-term borrowing	**24,736**	(57,336)
Other—net	**(8,537)**	(9,485)
Net (decrease) increase	**$ (14,135)**	$ 18,639

The accompanying accounting policy disclosures and notes to financial statements are an integral part of this statement.

Accounting Policies

Principles of Consolidation — The accompanying consolidated financial statements include all subsidiary companies over 50% owned directly or indirectly by Union Pacific Corporation (Company). All material inter-company transactions have been eliminated.

Investments in affiliated companies where the Company owns 50% or less of the stock are accounted for at cost. Income therefrom in the form of dividends is recognized when declared.

Inventories — Materials and supplies, refined products, and raw materials—crude oil are carried at the lower of cost or market using the average cost method of valuation. Real estate developed and held for sale is carried at the cost of land and improvements thereto. Administrative costs, property taxes and other carrying charges are absorbed in income on a current basis.

Depreciation — In accordance with accounting rules of the Interstate Commerce Commission, the Union Pacific Railroad Company (Railroad), a wholly-owned subsidiary of Union Pacific Corporation, charges current costs of repairs and renewals of parts of the track structure to maintenance expense, and capitalizes additions and betterments to the structure. Provisions for depreciation applicable to other classes of property are computed primarily on the straight-line method based on estimated service lives of such property.

Depletion and Amortization — Champlin Petroleum Company (Champlin), a wholly-owned subsidiary of Union Pacific Corporation, capitalizes intangible drilling and development costs, external geological and geophysical exploration costs applicable to acquired mineral rights and leasehold costs. Beginning with 1970, Champlin provisions for depletion and amortization of current additions to producing oil properties have been computed on a unit-of-production method by reference to periodic estimates of the remaining reserves of the respective properties. Such costs incurred prior to 1970 are amortized on a straight-line basis over the productive lives of the respective leases. Depletion and amortization of producing gas properties have been computed on the unit-of-production method consistent with practice in prior years. Leasehold and development costs relating to other natural resource operations are capitalized and will be amortized when production commences.

Exploratory Costs — Dry hole costs, geological and geophysical costs for unacquired mineral rights, and carrying costs of exploration privileges and mineral rights associated with oil operations are charged to income. Hard rock mining exploratory expenses are also charged to income.

Retirements — When railroad equipment or depreciable road property is sold or retired, the cost less salvage value (service value) is charged to accumulated depreciation. Retirements of nondepreciable road property are charged to income. In the case of non-railroad property sold or retired, cost and accumulated depreciation and depletion are written off and related gains and losses are reflected in income.

Investment Tax Credit — The Company currently employs the "flow-through" method of accounting for the investment tax credit. Champlin's tax benefits relating to periods prior to 1971, which are currently immaterial, are being spread over the useful lives of related assets.

Excess of Investment in Consolidated Subsidiaries over Equities in Recorded Net Assets — Included in this balance sheet item is $68,592,000, representing the excess of the Company's investment at cost in Champlin and in Pontiac Refining Corporation (now merged with Champlin) over equity in the underlying net assets at date of acquisition. This excess cost is not being amortized because, in the opinion of management, there has been no diminution in the underlying value of the investment.

Notes to Financial Statements

1. Acquisition of Minority Stock

As a result of an exchange offer made in 1969, the Company acquired 94.2% and 90.7% of the Railroad's outstanding common and preferred stock, respectively. As a result of a merger effected on June 25, 1971, which provided for exchange of securities on a share for share basis, the Company acquired the remaining publicly held shares of the Railroad. The exchange of Railroad common stock for Company common shares has been accounted for as a pooling of interests and the exchange of 4% preferred stock of the Railroad for 4¾% convertible preferred stock of the Company has been treated as a purchase. Accordingly, the accompanying prior year statements have been restated on a pooling of interests basis.

2. Extraordinary Item

Effective May 1, 1971, the Railroad elected to participate in the National Railroad Passenger Corporation (Amtrak). Amtrak has assumed from participating carriers their operating and financial responsibilities for providing intercity rail passenger service. The extraordinary charge to income of $65,061,000 (net of applicable Federal income tax of $51,532,000) represents primarily reserves to provide for severance and wage protection payments to employees affected by the Railroad's discontinuance of rail passenger service, write-off of passenger facilities and equipment and the entry fee payable to Amtrak.

3. Inventories

Inventories comprise the following at December 31:

	($000) 1971	1970
Materials and supplies	$33,066	$32,907
Real estate developed and held for sale[1]	36,150	30,450
Refined products	17,932	9,091
Raw materials—Crude oil	2,890	3,395
	$90,038	$75,843

[1] Commencing with 1971, developed land heretofore included in "Properties" has been classified in inventories. Results of land operations have been included in "Sales" and "Other Operating Costs." Corresponding amounts as of December 31, 1970 have been restated for comparative purposes.

4. Investments

The Company's equity in the net assets of 50% owned companies exceeded the cost of its investments therein by $19,147,000 and $21,437,000 at December 31, 1971 and 1970, respectively. For 1971, no dividends were received and the Company's portion of net losses incurred by these companies for the year 1971 was $2,290,000, whereas dividends received from these companies exceeded its portion of net income by $143,000 for the year 1970.

Commencing with 1971, land held for future development has been classified in the investment category. Corresponding amounts included in "Other Property" as of December 31, 1970 have been reclassified for comparative purposes.

Other investments include an investment of $43,001,000 in 2,149,319 shares of Illinois Central Industries, Inc. common stock. The market value of this investment as of December 31, 1971 and 1970 exceeded the cost by $35,180,000 and $21,479,000, respectively. The Railroad has agreed to dispose of this investment within 10 years after consummation of the Railroad's merger with the Chicago, Rock Island & Pacific Railroad or the proposed merger of Illinois Central Railroad Company with the Gulf, Mobile & Ohio Railroad Company, recently approved by the Interstate Commerce Commission.

5. Depreciation, Depletion and Amortization

Charges to income as a result of implementing applicable policies described elsewhere in this report were as follows:

	($000) 1971	1970
Repairs and renewals of track structure	$41,157	$35,006
Depreciation of other classes of property	63,527	61,139
Depreciation, depletion and amortization of oil and gas properties	20,099	18,090

6. Federal Income Taxes

Deferred Federal income taxes of $32,685,000 in 1971 and $38,383,000 in 1970 result primarily from deductions for depreciation and amortization of property for income tax purposes in excess of depreciation recorded on the books.

Federal income tax returns have been examined by the Internal Revenue Service through 1962 for all companies and settlement made through 1941 for the Railroad. The Railroad's 1942 tax refund suit against the United States Government is pending before the U.S. Court of Claims and, in the opinion of tax counsel, has merit. It is also the opinion of tax counsel that irrespective of the tax refund suit the Company is adequately accrued for all years since 1941.

7. Long-Term Debt

Long-term debt as of December 31 (exclusive of debt due within one year) is summarized below:

	($000) 1971	1970
Credit Agreements with participating banks, with interest at bank prime rate and ¼% above, due 1973 to 1975[a]	$190,000	$150,000
Refunding Mortgage Bonds, Series C, 2½%, due 1991[b]	45,725	51,078
Debenture Bonds, 2⅞%, due 1976[c]	32,201	32,201
Equipment Obligations, 5% to 8¾%, due 1973 to 1986[d]	208,601	190,503
Convertible Debentures, 4¾%, due 1999[e]	68,021	68,051
Installment Obligations, 9%	—	80,000
All other, at various interest rates	—	492
	$544,548	$572,325

(a) The credit agreements contain certain covenants, one of which limits payment of cash dividends to income earned subsequent to December 31, 1969. As of February 25, 1972, $115,000,000 of the amount outstanding at December 31, 1971 under the credit agreements had been repaid.

(b) After deducting $18,899,000 in 1971 and $14,286,000 in 1970 held in treasury.

(c) After deducting $8,878,000 in 1971 and $9,178,000 in 1970 held in treasury.

(d) On February 8, 1972, the Railroad issued $28,000,000 of its 7¼% equipment trust certificates maturing in 1986. The proceeds of the issue will be utilized to purchase new locomotives and freight cars.

(e) The debentures, which are redeemable after April 1, 1974, at the option of the Company at an initial redemption price of 104.75% of the principal amount, are convertible into common stock until April 1, 1999 at $57.14 per share (subject to adjustment under certain conditions).

Agreements relating to the refunding mortgage bonds and the 2⅞% debenture bonds require annual sinking fund deposits of $430,000 and $235,000, respectively.

8. Pension Plans

The Company and its subsidiaries have funded pension plans covering substantially all salaried employees as well as an unfunded supplemental plan for officers and supervisors. Actuarial reports issued in 1971 indicated that the actuarially computed value of vested benefits of funded plans exceeded the value of pension plan assets by $10,394,000. Charges to operations include $9,555,000 ($6,220,000 under funded plans and $3,335,000 under unfunded plan) in 1971 and $8,761,000 ($5,202,000 under funded plans and $3,559,000 under unfunded plan) in 1970. Such charges applicable to the funded plans include prior service costs which are being amortized over 30 years. In 1970, prior service costs for the Champlin plans were amortized on a basis of from ten to fifteen years.

9. Stock Options

The Company has a stock option plan under which there were 295,400 and 310,000 shares available for granting of additional options to officers and key employees at December 31, 1971 and 1970, respectively. Options may be qualified or non-qualified and are exercisable for periods of five and ten years, respectively, at 100% of market value at the date of grant. All options become exercisable one year after date of grant. Changes in common stock options outstanding during 1971 and 1970 are summarized below:

	1971		1970	
	Shares Under Option	Price Range Per Share	Shares Under Option	Price Range Per Share
Balance, January 1	302,000	$34.38 to 62.31	150,000	$42.69 to 62.31
Granted	16,600	47.75 to 62.50	167,000	34.38 to 46.88
Exercised	(56,530)	34.38 to 49.50	—	—
Expired	(18,900)	39.63 to 49.50	(15,000)	49.50
Balance, December 31	243,170	$34.38 to 62.50	302,000	$34.38 to 62.31
Exercisable at December 31	226,570	$34.38 to 62.31	135,000	$42.69 to 62.31

10. Deposits in Connection With The Proposed Union Pacific-Rock Island Merger

In connection with the proposed Union Pacific-Rock Island merger, the Railroad issued negotiable certificates of deposit, representing 2,705,167 Rock Island shares deposited under the Railroad's exchange offer, which provides (subject to approval of the merger by the Interstate Commerce Commission) for the exchange of each share of Rock Island stock for (a) one share of new Railroad $1.80 convertible preferred stock, cumulative as to dividends, plus (b) a contingent cash payment of $4.65 per share, aggregating $12,429,000, excluding 32,200 certificates of deposit held by the Railroad.

11. Commitments, Contingent Liabilities and Litigation

The Railroad is contingently liable (a) as guarantor, together with other participating railroads, for principal and interest of certain obligations of various affiliated companies aggregating approximately $72,800,000 of which approximately $6,900,000 is the estimated portion applicable to the Railroad

(b) as a participant in a service interruption policy with other railroads with maximum additional premiums of $17,726,000 at December 31, 1971 and (c) for other commitments which in the opinion of management will not have a material adverse effect on the Railroad's operations or financial position.

The Railroad is defendant to an action brought by the City of Los Angeles in which the City claimed ownership of, and seeks an accounting with respect to, 206 acres of alleged tidelands and submerged lands located in the Wilmington oil field, a long-term Railroad oil producing property. In the opinion of independent counsel, the Railroad has substantial defenses which, in their view, should be sustained by the Court.

The Railroad and certain of its subsidiary companies are defendants in one suit and the Railroad is a defendant in two other suits filed by REA Express, Inc. against numerous railroads and other defendants. These suits allege, among other things, violations of the Federal anti-trust laws and breach of fiduciary obligation, for which substantial damages are claimed. The Railroad has denied and intends to deny and resist the claims asserted in these suits.

12. Capital Stock

The outstanding preferred stock at December 31, 1971 is 4¾% convertible, series A which provides for: cumulative cash dividends at an annual rate of $0.475 per share; redemption after June 1, 1976 at the option of the Company at an initial price of $11.00 per share; and convertibility into common shares at the rate of 0.175 of a share of common stock for each preferred share.

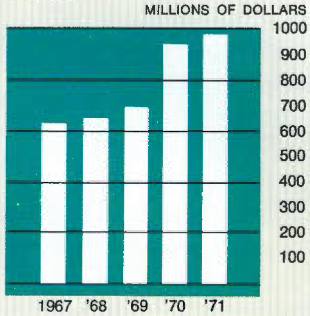
Of the unissued common stock, 1,862,648 shares (1,802,896 in 1970) are reserved for issuance upon conversion of 4¾% convertible debentures and 4¾% convertible preferred stock, series A, and exercise of stock options.

13. Earnings Per Share

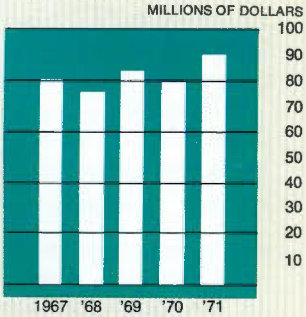
Earnings per share assuming no dilution is based on the weighted average number of common shares outstanding during the stated periods. Earnings per share before extraordinary item assuming full dilution is based on the weighted average number of shares of common stock and dilutive common stock options outstanding and assumes conversion of 4¾% preferred stock at date of issuance and 4¾% debentures at the beginning of each year. Fully diluted net income per share for 1971 excludes dilutive securities since inclusion would be antidilutive.

Five-Year Trends

NET SALES

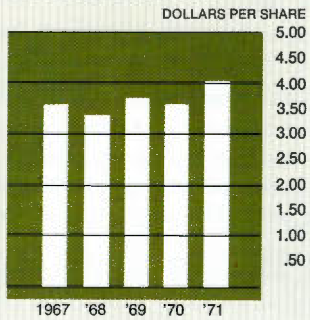


NET INCOME *



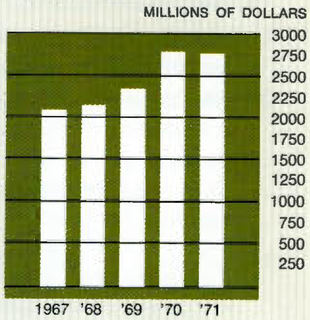
*Before Extraordinary Item

EARNINGS PER SHARE *

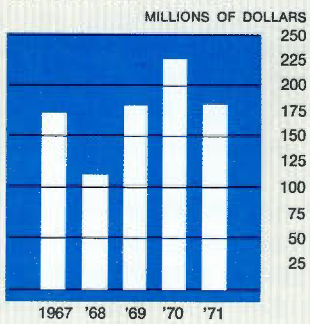


*Before Extraordinary Item

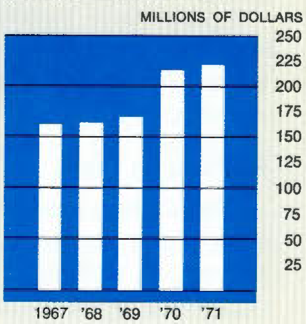
TOTAL ASSETS



CAPITAL EXPENDITURES



OPERATING CASH FLOW



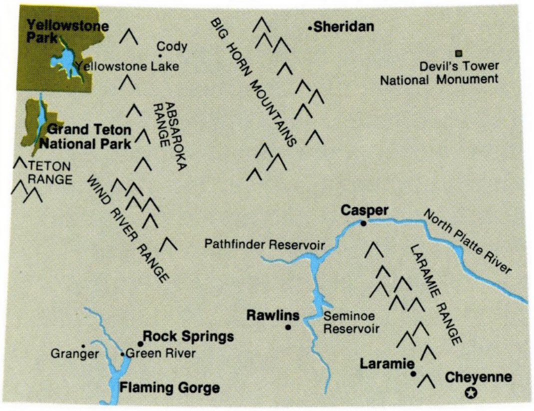
Five-Year Financial Review

(Dollar Amounts in Thousands)

	1971 (1)	1970 (1) and (2)	1969 (2)	1968 (2)	1967 (2)
Revenues and Sales:					
Transportation Revenues	**$ 700,469**	$ 677,848	$ 638,560	$ 602,411	$ 580,634
Sales	**276,772**	259,497	52,927	46,289	42,165
Total	**977,241**	937,345	691,487	648,700	622,799
Operating Costs:					
Transportation Operating Expenses	**570,619**	562,478	537,706	507,980	484,714
Cost of Sales	**255,210**	235,520	34,709	27,359	23,375
Total	**825,829**	797,998	572,415	535,339	508,089
Other Income—Net	**23,815**	14,668	16,887	13,753	10,762
Interest Expense	**35,377**	39,719	13,876	11,017	9,986
Federal Income Taxes:					
Current	**16,499**	(3,835)	16,840	14,578	14,694
Deferred	**32,685**	38,383	22,253	25,389	20,705
Net Income:					
Total (before extraordinary item)	**90,666**	79,748	82,990	76,130	80,087
Per Share (before extraordinary item)	**$4.03**	$3.56	$3.70	$3.39	$3.57
Dividends Declared on Common Stock:					
Total	**44,903**	44,858	44,858	44,858	45,980
Per Share	**$2.00**	$2.00	$2.00	$2.00	$2.05
At December 31					
Current Assets	**435,875**	477,270	357,054	274,957	264,154
Current Liabilities	**350,646**	377,906	276,329	155,288	136,466
Working Capital	**85,229**	99,364	80,725	119,669	127,688
Total Assets	**2,765,044**	2,781,695	2,322,034	2,122,731	2,073,588
Long-Term Debt:					
Due Within One Year	**34,849**	61,785	30,249	24,687	21,090
Due After One Year	**544,548**	572,325	298,972	218,977	236,529
Stockholders' Equity:					
Total	**1,493,512**	1,504,467	1,469,577	1,431,445	1,400,173
Per Share	**$66.16**	$67.08	$65.52	$63.82	$62.42
For the Year					
Capital Expenditures	**178,686**	224,560	178,336	110,029	172,263
Operating Cash Flow	**221,368**	218,371	173,048	164,771	162,740
Average Number of Employees	**30,902**	32,097	31,416	32,662	32,962
Total Salaries, Wages and Employee Benefits	**377,166**	370,019	329,393	313,409	294,343

(1) Includes the operating results of Champlin Petroleum Company which was purchased as of January 1, 1970.
(2) Includes consolidated results of Union Pacific Railroad Company prior to the effective dates of the exchange offers of Railroad stock for Corporation securities on a "pooling of interests" basis discussed in Note 1 to Financial Statements and reclassification of developed land to inventory as discussed in Note 3 to Financial Statements.

Big Wyoming



COMPLETING A SERIES

This salute to the great state of Wyoming concludes our annual report series on "States of the Union Pacific West," the 13 states served directly by the Union Pacific Railroad.

Both Wyoming and Union Pacific were founded at about the same time and have grown and developed together. Wyoming was organized as a territory on July 25, 1868, as Union Pacific construction crews were pushing the rails west from Laramie toward Rawlins. The Railroad played a major role in bringing settlers to Wyoming with an intensive effort to encourage development of the territory soon after the East and West were linked by the Golden Spike at Promontory, Utah in 1869. Population growth in turn brought statehood and on July 10, 1890, Wyoming was admitted to the Union.

"Big Wyoming" is more than just a state slogan. It signifies the wide open spaces, rolling grasslands and splendidly carved mountain ranges of the state that is the nation's ninth largest in area. Beneath its unlimited skies, Wyoming offers resources and opportunities on a grand scale.

Known as the "Equality State," Wyoming recognized the principle of equal rights more than a century ago by becoming the first state or territory to grant women the right to vote. The people of Wyoming proved that it was more than a token gesture when, in the 1920's, they elected the first woman governor in the country's history.

The Rocky Mountains dominate nearly two-thirds of the state and the Continental Divide reaches its highest pinnacle in Wyoming at 13,785-foot Gannett Peak. A paradise for vacationers and sportsmen, Wyoming has two of the country's most famous national parks: Yellowstone, the first and largest national park, with its "Old Faithful" geyser; and Grand Teton, with its breath-taking, snow-capped peaks. "It seemed as if nature had collected all her beauties together in this one chosen place," wrote explorer John C. Fremont in 1842 upon viewing the Teton Range. Devil's Tower, a fluted volcanic neck rising 1,280 feet, Flaming Gorge and Big Horn Canyon are but three of many spectacular Wyoming scenes formed by erosion of colorful rock strata. The forests and plains abound with big game including deer, moose, bighorn sheep, bear, mountain lion and the world's largest herds of pronghorn antelope and elk.

Wyoming's growing industrialization centers around its largest industry, mining. It is a sizable business which is attracting companies to build raw materials processing plants and related operations. Petroleum accounts for nearly two-thirds of Wyoming's annual mineral production and the state ranks first in the U.S. in production of trona (mineralized sodium carbonate), from which soda ash is made, second in uranium and third in sodium sulphate. Rapidly growing in importance are coal reserves, which the U.S. Geological Survey estimates at approximately 121 billion tons, placing Wyoming fourth among the states. Agriculture and tourism are the other principal industries of Wyoming. The major portion of agricultural income in the "Cowboy State" understandably is provided by livestock.

Union Pacific Railroad operates nearly 800 miles of main and branch lines in Wyoming and is the state's largest employer. The Railroad's double-tracked main line across southern Wyoming bears the heaviest freight traffic density on the entire UP system.

The Company has been actively engaged in oil and gas exploration and production in Wyoming for many years. Champlin Petroleum Company has agreements with several partners which involve oil and gas leases, options and drilling projects on millions of acres in the state. One of Champlin's natural gas plants is located at Patrick Draw.

Union Pacific pioneered the soda ash industry in southwestern Wyoming more than 30 years ago, locating trona deposits and later encouraging chemical firms to produce soda ash from the natural trona ore. In addition to owning mineral rights which are leased to other producers, Union Pacific has a 49 percent interest in one processing operation, Stauffer Chemical Company of Wyoming.

New environmental standards have created strong demand for Wyoming's low-sulfur coal. Union Pacific's capability to transport large shipments to distant markets is helping Wyoming to accelerate the growth of its coal industry. The Corporation also is involved in the expansion of coal mining through its subsidiary, Rocky Mountain Energy Company.

Union Pacific Mining Corporation has been spearheading uranium exploration on a large group of mining claims and leases held in the Powder River Basin and other areas in Wyoming.

Union Pacific is proud to serve the industrious people of Wyoming—Big Wyoming—where the romance of the Old West and the open range still lives and the future is filled with bright promise.

Opposite Page:

Above—World famous Yellowstone National Park in northwestern Wyoming, with its "Old Faithful" geyser, will celebrate its centennial during 1972.

Below left—Uranium exploration team from Union Pacific Mining Corporation conducts core drilling operations in central Wyoming.

Below right—A Union Pacific freight train passes a producing Champlin oil well near Patrick Draw, Wyoming.

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UNION PACIFIC CORPORATION ■ 1971 ANNUAL REPORT

UNION PACIFIC

345 Park Avenue
New York, N.Y. 10022
Address Correction Requested

THIRD CLASS