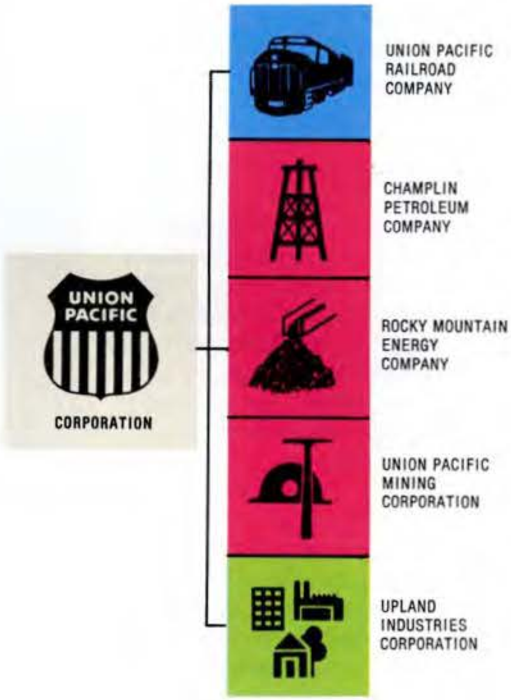
UNION PACIFIC CORPORATION
1972 ANNUAL REPORT

Union Pacific Corporation
Annual Report
1972

Union Pacific's operations in Transportation, Natural Resources, and Land Development are represented on the cover. The chart at right identifies the five subsidiary companies within these business areas.

Contents



Highlights

	1972	1971
Gross Revenues and Sales	**$1,094,397,000**	$ 977,241,000
Income Before Extraordinary Item*	**$ 104,479,000**	$ 90,144,000
Per Share of Common Stock:		
Income Before Extraordinary Item*	**$4.62**	$4.01
Dividends Declared	**$2.00**	$2.00
Operating Cash Flow	**$ 248,020,000**	$ 221,368,000
Capital Expenditures	**$ 149,950,000**	$ 178,686,000
Working Capital (end of year)	**$ 53,700,000**	$ 85,229,000
Stockholders' Equity (end of year)	**$1,569,662,000**	$1,507,033,000
Stockholders of Record—Common and Preferred (end of year)	**78,708**	82,996
Average Number of Employees	**29,732**	30,902

**Income applicable to 1971 has been restated for equity in unconsolidated affiliates as discussed in Note 3 of the Notes to Financial Statements.*

Opposite page—Drilling crew at the wellhead of Brady Unit #1 Well in southern Wyoming, an apparently significant wildcat well drilled by Champlin Petroleum during 1972-73 that thus far has resulted in several discoveries of oil and gas at different depths.

UNION PACIFIC CORPORATION

To Our Stockholders:

Union Pacific Corporation reached two significant milestones in 1972. Earnings rose 16 percent to top the $100 million mark, and revenues and sales exceeded a billion dollars for the first time.

Net income for Union Pacific in 1972 was $104.5 million, or $4.62 per common share, compared with $90.1 million, or $4.01 per common share, before the extraordinary charge in 1971 for entry into Amtrak. Gross revenues and sales totaled $1.1 billion in 1972, compared with $977 million in 1971. Details on the 1972 results are presented in the Financial Review starting on page 24.

Goals and Strategy

Although 1972 proved to be a record year in many respects, Union Pacific management's objective is not the setting of records, per se. Rather, our primary goal is sound, profitable growth in each of our major business areas—transportation, natural resources and land development. Our purpose and plan is to keep the Railroad modern, growing and profitable while accelerating the development of our strong natural resource base in oil, gas, coal and trona. Our primary emphasis in land development is placed on those industrial and commercial markets that offer the best profit opportunities.

Our major long range objectives are two. First we intend to operate the Railroad in the utmost faith that we will stay in the business and stay as the best. As evidence of this commitment, we have invested more than a billion dollars in the last eight years for equipment and facilities to provide the most efficient possible rail service.

Our second, and equally important long range goal is to raise the earnings of Union Pacific's non-transportation businesses to match the continually increasing income of our Railroad.

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

Rock Island Status

On February 15, 1973, the Interstate Commerce Commission released the third and final volume of the administrative law judge's recommended report and order on the merger of the Chicago, Rock Island & Pacific Railroad into the Union Pacific Railroad. Although the administrative law judge recommends approval of the 1964 Union Pacific application, the conditions set forth in the report will require detailed study. Many of these conditions, if upheld by the Commission, may well render the administrative law judge's recommendations utterly unworkable.

If the Commission should approve or amend the recommended report, it is anticipated that litigation may follow. Neither the ultimate resolution of the matter nor the effective date can be forecast at this time.

Meeting America's Energy Needs

The harsh reality of factories and schools closing for lack of oil or gas, of major airlines running short of jet fuel, and of rationing home heating oil in some areas, probably has done more than millions of words to convince thinking Americans that a critical energy shortage is indeed upon us. The United States simply is not producing enough energy to meet its rapidly growing needs

While imported petroleum and liquefied natural gas may temporarily ease this shortage the nation cannot afford to become overly dependent upon foreign sources from the standpoint of national security, balance of payments and dependability. Even with a greater volume of imports, there is a possibility that the Federal Government may soon have to resort to measures previously unheard of in peacetime in order to ensure that our most essential needs are met.

Therefore, top national priority must be given to the accelerated development of America's own energy-related natural resources, especially oil, gas, coal and, over the longer term, uranium.

Three of Union Pacific's operating components—Champlin Petroleum Company, Rocky Mountain Energy Company and Union Pacific Mining Corporation—are deeply involved in helping to meet America's present and future energy needs.

In 1972, Champlin broadened the scope of its exploration and development efforts. In addition to active exploration in the United States and Canada Champlin participated in several joint ventures that were awarded leases and drilling rights in the North Sea, Peru and offshore Louisiana.

In 1971, it is estimated that about 550 million tons of coal were mined in the entire United States. By comparison, Union Pacific has reserves of more than 10 billion tons, most of it low in sulfur content. Our efforts to develop these reserves moved ahead in 1972. Additional mining leases were granted to other producers: a joint venture was started with Arch Mineral Corporation to mine coal in Wyoming; and Rocky Mountain Energy Company entered into three ventures to develop needed technology for producing coal gas that will be competitive in cost and in heat value with this country's dwindling supplies of fossil fuels.

Union Pacific Mining Corporation continued in 1972 extensive exploration for uranium. This program is conducted in partnership with a subsidiary of Southern California Edison and is targeted toward meeting the anticipated steady increase in fuel demand for nuclear power plants in the late Seventies and beyond.

A more detailed presentation of the activities of Champlin, Rocky Mountain Energy and Union Pacific Mining which together accounted for about $300 million in sales in 1972, is given on pages 9 through 14 of this Report.

Board of Directors

Three Directors joined the Board of Union Pacific Corporation in 1972.

John B. M. Place, 47, Chairman of the Board, President and Chief Executive Officer of The Anaconda Company, New York, was elected on March 29; John C. Kenefick, 51, President of Union Pacific Railroad Company, was elected on May 9; and Robert W. Roth, 49, President of Jantzen Inc., Portland, Oregon, was elected on September 28.

W. Dale Clark, former Chairman, Omaha National Bank, retired in March as a Union Pacific Director with more than 31 years of outstanding service.

We record with profound sorrow the deaths of two Directors in 1972. Walter D. Fletcher, who retired from the Union Pacific Board in May after having served eminently for more than 21 years, died on September 20. John S. Sinclair, a Union Pacific Director with more than 25 years of distinguished service, died on October 29. Mr. Fletcher had been a senior partner in the law firm of Davis Polk & Wardwell, New York, a recognized expert on estates and trusts, and was a longtime leader in the fields of education and philanthropy. Mr. Sinclair's career embraced the fields of law, banking and insurance; in recent years he had been a Councillor of The Conference Board, Inc., New York.

The high character, cooperative spirit and wise counsel of these distinguished men will be greatly missed by the Board and members of management.

Outlook for 1973

Union Pacific's outlook for 1973 is guardedly optimistic. Although the strong growth trend in the economy will benefit the Corporation in all of its business areas, there are two major challenges confronting the railroad industry, the outcome of which could have a significant effect on our overall Corporate performance this year.

The first challenge is a severe cost-price squeeze. Gains from recent freight rate increases have fallen far short of offsetting the cost of higher wages and benefits. Some relief would result if the Interstate Commerce Commission would move promptly to approve sorely-needed rate increases so clearly justified by increases in wage and other costs. Under present day circumstances the traditional regulatory lag is inexcusable. Of equal importance is the absolute necessity for a realistic atmosphere at the bargaining tables in connection with the 16 rail union contracts that are subject to renegotiation by July 1.

The other major challenge is one in which all industry and the American public have a vital stake. It is that of assuring the continuation of service by the Penn Central. It is difficult to overestimate the effect on the economy of even temporary cessation of operations by that railroad, which is involved in handling 20 percent of all rail freight in the United States. It is vitally important that Congress and the Administration address themselves now to restoring the Penn Central to a viable condition. The alternative could be economic and social disaster for the nation.

We are also hopeful that this year Congress will pass legislation, notably the Surface Transportation Act, that will help ensure the equitable treatment and healthy growth of all modes of transportation on which our economy is so dependent.

On behalf of the Board of Directors, we express appreciation for the continued support of our stockholders, customers, dealers and distributors. To the members of the Union Pacific organization, we extend our thanks for your increasing efforts to improve our performance through service of high order to the businesses and consumers it is our privilege to serve.

Frank E. Barnett
CHAIRMAN OF THE BOARD OF DIRECTORS

James H. Evans
PRESIDENT

Elbridge T. Gerry
CHAIRMAN OF THE EXECUTIVE COMMITTEE

New York, N.Y., February 22, 1973

TRANSPORTATION: UNION PACIFIC RAILROAD COMPANY

John C. Kenefick, President
William J. Fox, Vice President-Operation
Robert F. Pettigrew, Vice President-Executive Dept.
C. Howard Burnett, Vice President-Executive Dept.
Walter P. Barrett, Vice President-Traffic
Glen L. Farr, Vice President-Labor Relations
Thomas B. Graves, Jr., Asst. Vice President-Marketing
Fred L. Morgan, Asst. Vice President-Sales
C. Barry Schaefer, Western General Counsel
John P. Deasey, Controller

The modern railroad

Union Pacific's basic approach to operating a successful and profitable railroad is continual modernization. Some of the key areas which require ongoing investment are: motive power, rolling stock, right of way, communication, trailer and container facilities and financial control. Only by upgrading capability and efficiency can rail operations hope to overcome steadily increasing wage and materials costs and maintain sound earnings growth.

Capital expenditures for equipment and facilities have been substantial—$114 million in 1972 and more than a billion dollars in the past eight years. Another $140 million will be invested in capital improvements in 1973.

The modern Railroad is becoming more and more an electronic-based system, ideally suited to benefit from computer technology.

In 1972, Union Pacific continued the expansion of its private microwave communications network, adding new segments to reach Long Beach, California; Spokane, Washington and northern Idaho. These additions brought the total network to 3,831 miles. In conjunction with the Railroad's two IBM 370 computer systems, this network transmits data for the **C**omplete **O**perating **IN**formation (COIN) system that is designed to provide real time reporting and analysis, and control of car distribution, as well as car tracing services and administrative message switching. During 1972, the initial phase of the Railroad's first Terminal Information System, which combines mechanical waybill production and yard and industrial car inventories, was installed in the Omaha area.

Another example of the way electronic systems are used by the modern Railroad is the dynamometer car, a laboratory on wheels that does its testing behind the locomotives in a working train. This mobile laboratory measures and records nearly every characteristic of locomotive and car performance, from lubricant temperature to stress on underframes. It utilizes closed-circuit television, videotape, an oscillograph and other sophisticated electronic measuring and recording equipment.

Transportation Revenues Increase—Union Pacific's overall transportation revenues increased $78.9 million (11 percent) in 1972 to a total of $779.4 million, up from $700.5 million in 1971. The increase reflected strong recovery from the 1971 rail, coal and dock strikes, all of which severely depressed operating results in that year. In 1972, Union Pacific people achieved an all-time high mark of more than 51 billion ton-miles of revenue freight.

Commodity traffic that increased substantially in 1972 included autos, lumber, iron ore, coal, soda ash and wheat. The tonnage contribution by major categories of freight traffic is shown below.

Freight Traffic by Commodities in 1972

Commodity Group	Tons Carried	Percent Increase	Percent of Total
Farm Products	14,326,762	6.6	18.13
Iron Ore, Metallic Ore and Coal	12,967,071	23.3	16.41
Lumber, Wood Products, Furniture and Fixtures	9,915,137	10.3	12.54
Food and Kindred Products	9,628,504	3.2	12.18
Chemicals and Allied Products	7,445,638	9.1	9.42
Non-Metallic Minerals	7,428,409	17.0	9.40
Miscellaneous	17,324,004	10.7	21.92
Total, All Commodities	79,035,525	11.2	100.00

John C. Kenefick

Carloadings originating on our line and those received from other roads gained in 1972. The Kansas City gateway continued to grow in importance as business steadily increased to and from the South and Southeast. Freight revenue from traffic through Kansas City in 1972 totaled $210.8 million, up $23.3 million from the prior year. As discussed on page 8, a major capital improvement program is under way to handle the increased traffic through the Kansas City gateway.

Freight Operations—The efficiency of Union Pacific's freight operations, characterized by high capacity trains hauled by some of the world's most powerful locomotives, continued to improve in 1972. The Railroad succeeded in lowering its operating ratio (operating expenses as a percent of revenues) despite the fact that rate increases in 1972 fell far short of offsetting the cost of higher wages and benefits. For the third year in a row, the Railroad's operating ratio (75.08 percent in 1970 and 73.69 percent in 1972) was lower than the average for Western railroads as well as for the industry.

One of the methods most successful in improving delivery time and lowering

Top—Union Pacific's fast schedules helped place autos and trucks among the leading commodities contributing to the 1972 gain in revenue freight. This General Motors shipment is enroute between Michigan and Oakland, Calif.

Bottom—Run-through unit coal train with mixed power (locomotives of more than one carrier) will travel over two or more railroads from its origin to its destination without having to stop to change locomotives.

the cost of freight operations has been cooperative programs with other railroads and other modes of transportation. On many trains, Union Pacific pools its locomotives with those of one or more of nine other railroads to eliminate costly power changes at interchanges between lines. These trains are "run-through" from North Platte, Nebraska eastbound to areas such as Chicago, St. Louis and Memphis, and westbound to Southern California, the San Francisco area and the Pacific Northwest. Special unit coal trains and ore trains also are operated on a run-through basis over great distances to the Midwest and to California.

The Railroad's already substantial coal traffic moving into the Midwest was increased in 1972 by the opening of two new coal mines near the Union Pacific main line in Wyoming. These mines contributed an average of seven unit trainloads a week of low-sulfur coal, much of it from lands in which Rocky Mountain Energy has the mineral rights.

U.S. wheat movements increased sharply in the 1972-73 marketing year, placing a heavy burden on railroads for suitable freight cars. Union Pacific, capitalizing on its substantial fleet of 9,000 covered hopper cars, its proximity to major grain producing areas and its competitive rates, handled substantially increased wheat shipments originating in its territory and moved them to West Coast ports as well as to Eastern markets and Gulf ports via connecting lines.

A new "Overland Mail" train between Chicago and Oakland, California via Union Pacific and two other railroads was initiated in 1972. It speeds parcel post and bulk mail shipments and provides significant revenue.

Cooperation with other transportation modes—steamship and truck—helped increase containerized freight tonnage by 10 percent in 1972. The Railroad established a new "VAN" train to handle TOFC (trailer on flat car), shipper association and forwarder traffic, with running time from North Platte to Los Angeles of 34 hours, a reduction of five to six hours in travel time. New and larger facilities for trailer and container traffic will be built at Omaha, Nebraska; Portland, Oregon and Los Angeles in 1973, to replace older facilities. Union Pacific operates 53 intermodal terminals.

Marketing—Union Pacific has joined with steamship lines and connecting railroads in establishing "Mini-bridge" tariffs for moving container freight between the Far East and U.S. East Coast port cities. The concept is a recent international trade development that substitutes faster overland rail service for water transportation. The joint water/rail rates are essentially the same as rates for all-water movement.

The "Pacific" orientation implicit in the Railroad's name is becoming more important with the growth of international trade *across* the Pacific to and from the West Coast. Union Pacific provides service to more major West Coast ports than any other railroad. The Railroad has traffic offices in Japan, Australia, the Philippines and Taiwan serving those countries as well as New Zealand, Korea, Hong Kong, Singapore and Thailand.

In developing markets, Union Pacific applies the yardstick of "profitability potential" to geographic areas, and to specific commodities and commodity groups. Consideration is given to the origin of the traffic, the dollar value, the cost of serving the market and the expected duration of the market. The Operating and the Marketing Departments cooperate to gain a competitive edge by developing equipment, special services and schedules that customers

Left—Electronic "hot box" detector on ground reads temperature of freight car wheel bearings while train passes at full speed.

Right—Hundreds of miles away at a central control point, automatic read-out instantly identifies any overheated bearings ("hot box") so that a warning can be radioed to the engineer who will take immediate corrective action.

need. For instance, the Railroad's fast schedules have been attracting significantly higher volumes of traffic in autos and auto parts destined for the West Coast. Carloads from various origins reaching UP's eastern gateway at Council Bluffs, Iowa are delivered to connections at Ogden, Utah in less than 24 hours. This represents a time saving of eight hours over normal operations in the past. Autorack cars from the Kansas City gateway join these trains at North Platte and move westward on the same fast schedule.

One of the primary marketing objectives illustrated by these auto movements is that of becoming an integral part of the customer's distribution system. When the shipper can depend on the speed and reliability of service, he can reduce his inventory and costs, while the Railroad receives significant freight revenue from this steady traffic.

Labor Costs, Freight Rates and Cost-Price Squeeze—One of the critical problems facing the railroad industry in 1973 is the severe cost/price squeeze stemming primarily from the fact that increases in wage and benefit costs have far exceeded the gain from increases in freight rates.

Wages under labor agreements increased 5 percent on October 1, 1971; another 5 percent on April 1, 1972; and still another 5 percent on October 1, 1972, for a compounded increase of 15.8 percent. An additional increase was granted January 1, 1973, with still another increase scheduled for April 1, 1973. Labor contracts are subject to renegotiation by July 1, 1973.

The 1972 gain from freight rate increases during the 15 months ending December 31, 1972, fell $13.5 million short of covering increased labor costs in 1972—and that does not take into consideration increases in the costs of materials and supplies. Additional rate increases obviously are needed.

Work Rules—The Railroad industry and the United Transportation Union settled a long-standing work rules dispute in January, 1972. Under a new agreement, the Railroad may now negotiate interdivisional runs and other work rules changes to increase operational flexibility. Employees affected by the agreement not only received the substantial wage increases cited above but also will benefit by spending less time away from their homes. A dispute dating back to 1937, concerning the use of firemen on diesel locomotives, was settled in July, 1972.

Modern Equipment and Facilities—Within the $114 million capital investment in 1972, nearly $92 million was for new equipment, including 100 new 3,000-HP diesel locomotives and 2,336 freight train cars. The Railroad's own shops built 750 of the new cars.

In 1973, an investment of more than $100 million is planned for 80 new 3,000-HP diesel locomotives, 2,760 new

"... social legislation is not going to have any money to work with unless the American worker has work to do. There was not one bill in the unfinished business of the last Congress that would have produced the jobs, the tax returns and the economic activity that would have been produced by the industry-backed Surface Transportation Act."

— John C. Kenefick, from an address to the Transportation Club of Boston

Left, below—Union Pacific Railroad executives (from left) William J. Fox, V.P.-Operation, Glen L. Farr, V.P.-Labor Relations, and Walter P. Barrett, V.P.-Traffic, tour Denver yard during break from management meeting.

Below—The Railroad's record financial and operating results in 1972 are reviewed by executives (from left) Robert F. Pettigrew, V.P.-Executive Dept., C. Barry Schaefer, Western General Counsel, and John P. Deasey, Controller.

freight train cars and various work equipment.

Union Pacific has one of the youngest fleets in the nation, with locomotives averaging 11.9 years and freight cars averaging 11.5 years in age.

A major program has been developed to rearrange yards, main line trackage, sidings and signaling on the Kansas division in line with the growing freight volume. The first stage of this $12 million program is now under way.

Maintenance and repair facilities received the most emphasis in the 1972 property improvement program. A new diesel shop opened in March at Pocatello, Idaho speeds locomotive maintenance operations in the Northwest. Well under way at the Omaha shops is a major $3.6 million program to provide a central facility for overhaul and repair of diesel components. This modernization project will be completed in stages over the next two years.

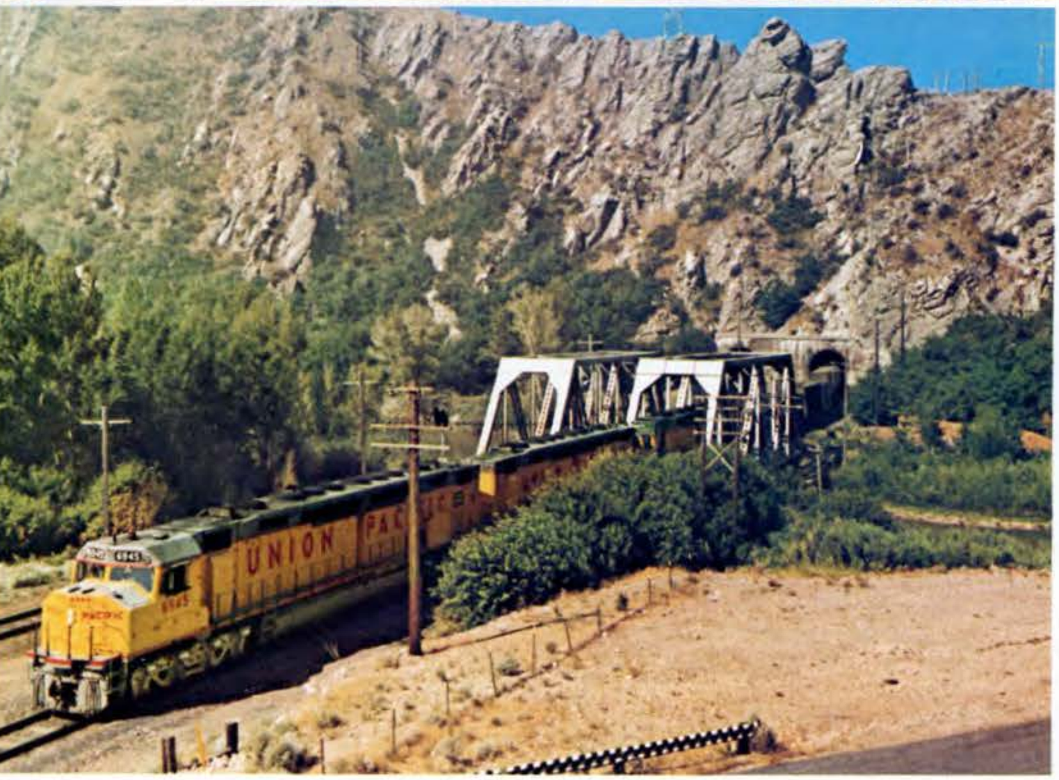
A new freight car repair facility designed for minor repairs to cars in service was completed at Salt Lake City, Utah early in 1973 and five similar, highly efficient new facilities are scheduled to be built in 1973 at Albina, Oregon; Kansas City, Kansas; North Platte, Nebraska; Pocatello, Idaho; and Green River, Wyoming.

An addition to the Pocatello facility used for major repairs to cars was begun in 1972 and is scheduled for completion this year. Another 1973 project is modernization of the Salt Lake City diesel shop.

Maintenance Expenditures—Heavy emphasis on maintenance keeps Union Pacific's modern fleet of locomotives and freight cars operating at a high degree of utilization. In 1972, expenditures for equipment maintenance totaled $88.3 million, up $10.6 million from 1971.

The maintenance of way program in 1972 topped the previous year's achievements by replacing about 604,000 cross ties and 382 miles of rail, including 232 miles of new-welded rail on the main line. The Railroad surfaced and reballasted 1,045 miles of roadway during the year.

New Officers Elected—Effective April, 1972, C. Barry Schaefer, 34, formerly Assistant General Counsel, Union Pacific Corporation, was elected Western General Counsel of the Union Pacific Railroad Company. Effective February, 1973, C. Howard Burnett, 53, formerly Assistant Vice President—Personnel, was elected to the new position of Vice President—Executive Department, with headquarters in Portland, Oregon and special responsibilities in the Northwest area of the Railroad's operating territory.



Top—Union Pacific's covered hopper cars, such as these being loaded at Potter, Nebr., have been in great demand due to a significant increase in wheat shipments on Western railroads as a result of the major U.S. sale of wheat to Russia and strong domestic markets.

Bottom—Union Pacific "Centennials," world's mightiest locomotives with 6,600-HP diesel-electric engines, head a freight train at Weber Canyon, Utah. The modern Railroad's double-track main line now passes through tunnels at the same spot where Union Pacific originally cut a single-track tunnel in the late 1860's.

Meeting America's energy needs

The long predicted "energy crisis" became a reality in the winter of 1972-73. With only 6 percent of the world's population, the United States consumes 37 percent of the world's annual energy output—and our needs as well as worldwide demands are increasing.

The most dependable way we in this country can relieve the energy shortage over the near term is to increase our domestic output of oil and gas. The cost of tapping our remaining recoverable resources will be high, however, because of the need to drill to greater depths, to use secondary recovery methods in mature fields and to meet more stringent environmental requirements.

A balanced National Energy Policy must be developed to meet our needs. This will require an economic and political climate sophisticated enough to stimulate domestic investment in exploration, development and refining while crude supplies are augmented by exploration and development of those highly prospective international areas that offer minimal political risk. A National Energy Policy should provide incentives to encourage the more rapid development of technology in the field of coal gasification. It must also deal with the questions of site location, licensing and waste disposal that presently are holding back the growth of nuclear electric generating capacity.

As stated in the "Letter to Our Stockholders," Union Pacific Corporation is building upon its strong position in oil, gas and coal to help meet the country's needs. The following five pages of this Report describe the activities of the three companies that operate in the Natural Resources area.

PART I—OIL AND GAS: CHAMPLIN PETROLEUM COMPANY

In the three years since Champlin became part of Union Pacific, this fully-integrated oil company has steadily increased its contributions to sales and earnings. At the same time, Champlin's scope of operations has been broadened considerably. Its Texas and Oklahoma refineries have been upgraded and enlarged. Champlin is fully prepared to compete in the low-leaded and unleaded gasoline market as it develops under stronger environmental standards. Wholesale and retail marketing has been expanded into an 18-state mid-continental area, plus an East Coast wholesale market served by tanker shipments.

The year 1972 marked the beginning of several major domestic and international drilling projects. Recent discoveries plus a new secondary recovery program at the Wilmington Field in California point toward an improvement in Champlin's crude oil supplies, possibly as soon as 1974. For instance, Champlin's Brady Unit wildcat has attracted considerable public attention because of its two thick pay zones and several other levels at which oil and/or gas flowed, all found in the same well.

Champlin gas stations, serving consumers in an 18-state mid-continental area, are being restyled with attractive new decor and insignia.

Stronger product prices in the second half of 1972 contributed to a substantial improvement in earnings.

Cash flow generated by Champlin continued to grow in 1972. In the three years since the purchase of Champlin, cash flow from petroleum operations has totaled more than $165 million. Nearly all of this has been reinvested in Champlin with primary emphasis on the exploration and development of new oil fields and the expansion and upgrading of refineries and pipelines.

Exploration and Development Programs—Champlin's major exploration areas in 1972 included Wyoming, Colorado, offshore Louisiana, the North Sea and Peru. Champlin's oil and gas leases total nearly 1.6 million acres—consisting of about 326,000 acres held by production and approximately

Roger S. Plummer

Roger S. Plummer, President
Linn F. Adams, Executive Vice President
J. L. Rune, Executive Vice President-Corporate Development
William W. Houck, Senior Vice President-International Development
Jack J. Horton, Senior Vice President-Financial & Administration
Frank L. Jones, Senior Vice President-Production
Earl B. Austin, Vice President-Land and Exploration
Wm. E. Biggerstaff, Vice President-Marketing
D. O. Churchill, Vice President-Land
L. L. McDonald, Vice President-Producing Operations
Wm. M. Mueller, Vice President, General Manager-Enid
Frederick M. Otto, Vice President-Refining
Roy K. Russell, Vice President-Personnel
Charles A. Zubieta, Vice President and General Counsel

1.27 million leasehold acres not under current production.

The Brady Unit Discoveries in Wyoming—Champlin's exploration program in southern Wyoming in 1972 was highlighted by announcements of multiple discoveries of oil and gas in a deep wildcat well in Sweetwater County. Drilling by Champlin, as unit operator, thus far includes the discovery well—Brady Unit #1, and two stepout wells—Brady Unit #2, a mile northeast, and Brady Unit #3, a mile southwest of the wildcat well.

Drillstem tests and electric logs in Brady #1 have indicated oil and/or gas in five formations, each at a different depth. A significant discovery of potentially productive oil and gas sand was encountered in what is believed to be about 170 feet of net effective pay in the Nugget Formation at a depth of about 11,660 feet, and about 600 feet of oil column of which 270 feet appears to be net effective pay in the Weber Formation at a depth of about 13,595 feet.

Findings of natural gas in one or more of the wells were made in four other formations: Frontier, Dakota, Lakota and Phosphoria (see diagram on page 11). Each formation is potentially a separate reservoir.

Further drilling, coring and testing of all three wells will be required before a comprehensive evaluation can be made of the results which have been announced.

Ownership in the Brady Unit #1 discovery well, in the two Brady Unit stepout wells, and in approximately 13,700 acres of pooled lands surrounding the well sites, is shared 41.25 percent each by Champlin and Mountain Fuel Supply Company, and the remaining 17.5 percent is held by Amoco Production Company, a subsidiary of Standard Oil of Indiana. The Brady Unit area comprises approximately 39,000 acres.

The Amoco Drilling Agreement—In 1969 Union Pacific signed an agreement with Amoco Production Company 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. By the end of 1972 Amoco had drilled or caused to be drilled 1,007 wells of which a net total of 282 were successful oil and gas wells. Union Pacific retained the oil and gas rights in one quarter of each section of its land involved in this agreement and Champlin had drilled 33 successful wells to date on the retained acreage. The most significant area of discoveries has been in Colorado, east of Denver, where the Peoria and Wattenberg Fields are under development. In 1973 the

Champlin uses drilling platforms in areas such as the North Sea and the Gulf of Mexico in exploring for oil.

emphasis on exploratory drilling will be shifted to Wyoming.

Under terms of the agreement, Union Pacific received $9 million for the first three-year period. In 1972, Amoco renewed its option for an additional one-year period for which Champlin received $3.8 million. Champlin also receives royalties on production from lands leased to Amoco.

Offshore Louisiana—Champlin holds a 26.2 percent interest in the six-member SONAT group which, in December, successfully bid $25.1 million for a Federal oil and gas lease 18 miles off the shore of Louisiana. The lease covers Tract 2415, partial Blocks 234/235, consisting of 4,556 acres in the South Marsh Island area. SONAT Exploration Company, a subsidiary of Southern Natural Gas Company, and operator for the group, plans to begin drilling during the spring on the tract, which is in only 25 feet of water.

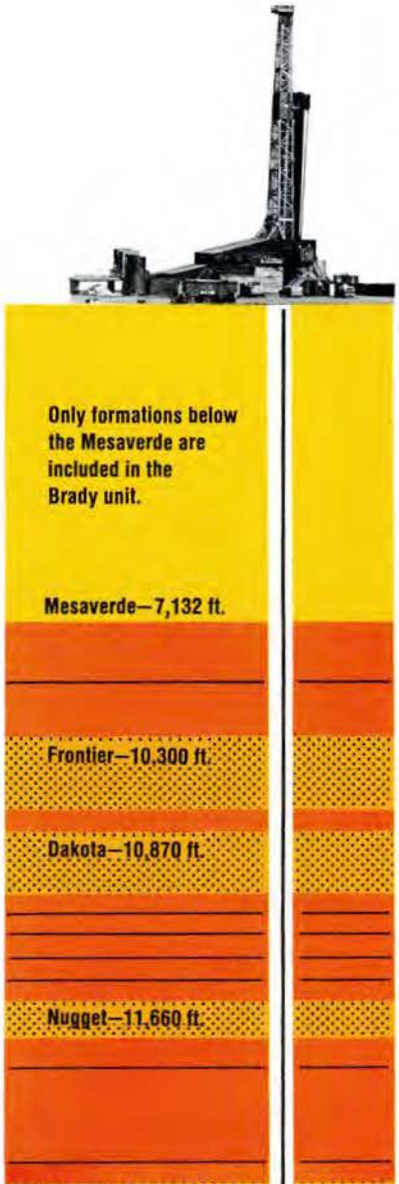
International—In the North Sea area, Champlin has a 22½ percent interest in the "Halibut Group" headed by Signal Oil & Gas Company, which completed drilling tests in September at its well northeast of Scotland in Block 211/18. One of three zones flowed oil at an average rate of 5,293 barrels a day. Further drilling is being considered for late spring at this site which is the northernmost discovery in the North Sea to date. The program's objective would be to determine the extent of the reservoir and to evaluate economic significance of the discovery. In these deep, inhospitable waters, a larger reserve would be necessary for profitable operation than would be the case in an offshore well in shallow waters and a warmer climate.

Exploration in Peru by a three-company group, consisting of Champlin, Sun Oil Company (operator for the group) and Continental Oil Company, began with seismic studies in December, 1972, under a contract awarded by Petroperu, the state-owned oil company. The group plans to begin exploratory drilling in 1974. Champlin has a 25 percent interest in the venture.

These Champlin programs are indicative of a change in exploration objectives. Champlin has moved from essentially a domestic drilling effort involving numerous wildcats to a broader program that includes international ventures with only high-potential plays continuing in the domestic plan.

Production—In 1972, Champlin's production of crude oil and field condensate totaled 16.8 million barrels, compared with 17.5 million barrels in 1971. The decrease is due to the normal decline in volume of oil and gas which may be expected from mature fields.

Although Wilmington continues to be one of the top producing fields in the United States, most of it is at a secondary recovery stage where production is accomplished largely by water injection methods. As unit operator in certain segments of the field, Champlin received approval in 1972 from its fellow participants and the City of Long Beach to expand water injection operations. The program includes drilling or redrilling of 45 injection wells, the conversion of 32 producing wells to water injection, and the drilling or redrilling of 22 producing wells. Subject to favorable rulings by the California Coastal Zone Conservation Commission, the drilling phase and construction of related facilities are scheduled to be completed in 1973. As a result, Champlin's crude oil



Geologic formations through which Brady Unit #1 Well is being drilled. The Lakota Formation (not shown) was identified in Brady Unit #2 just below the Dakota Formation.

production from Wilmington should show a marked gain in 1974.

Since the beginning of 1971, Champlin has increased the daily average volume of its petroleum product sales by 24,822 barrels. Champlin's need for additional crude oil has persisted, as the table indicates, and refining costs have been affected adversely by the cost of supplies purchased from outside sources. Commencing in 1974, the Brady Unit in Wyoming should begin to contribute to Champlin's crude oil and gas supplies.

Pipeline Operations—The Calnev Pipe Line Company, a wholly-owned interstate carrier between Colton, California and Las Vegas, Nevada, delivered 14.1 million barrels of petroleum products in 1972, up from 13.6 million barrels in 1971. In 1973, under a $7.2 million expansion program, approximately 130 miles of the 248-mile system will be enlarged to 14-inch line, which will replace 8-inch diameter line. In 1970, the first stage of this program was completed when 107 miles of line were enlarged. Jet fuel and gasoline are the major products moved through the line.

Summary of Production & Refinery Runs	(Daily Average) **1972**	1971
Production of crude oil and field condensate, barrels	**45,926**	48,058
Natural gas processed, million cubic feet	**435.0**	404.5
Net interest in gas from all sources, million cubic feet	**317.1**	325.8
Plant products recovered from gas processed, barrels	**16,935**	15,018
Net interest in plant products from all sources, barrels	**9,905**	9,659
Refinery runs, barrels	**132,183**	126,238
Petroleum product sales, barrels	**141,948**	128,607

Marketing—Gasoline prices firmed up in the second half of 1972. For the year, Champlin's daily average gallonage sold increased about 11.5 percent. Jobber volume was up substantially and there were modest increases in the gallonage sold through direct dealer outlets. Sales of tires, batteries and accessories increased a significant 44 percent in 1972 to a new high of $7.7 million. Champlin gasoline is marketed in 18 mid-continental states. In 1972, 16 new service stations were built in 13 cities.

Sales of home heating oil and other light oils in the retail and wholesale markets increased by a significant daily average of 6,637 barrels in 1972.

Wholesale shipments of refinery products from Corpus Christi via tankers to purchasers on the Atlantic Seaboard were important factors in the sales gain and helped to meet the fuel shortage in the Northeast.

New Officers—Linn F. Adams, 49, formerly President and Chief Executive Officer of Mandrel Industries, Inc., a geophysical service and manufacturing company of Houston, Texas, was elected to the newly-created position of Executive Vice President of Champlin Petroleum Company, effective January 1, 1973. Mr. Adams also served in management positions with Standard Oil of California.

Two new officers joined Champlin in August, 1972. Earl B. Austin, 51, Vice President-Land and Exploration, was formerly President of White Shield Oil and Gas Company and Exploration Manager of Murphy Oil Corporation. Frederick M. Otto, 41, Vice President-Refining, formerly held management positions with Crown Central Petroleum Corporation and Clark Oil & Refining Corporation.

Top—Discussing exploration and production matters are Champlin executives (from left) Earl B. Austin, V.P.-Land and Exploration, Linn F. Adams, Executive V.P. and William W. Houck, Senior V.P.-International Development.

Middle—Champlin executives (from left) Frederick M. Otto, V.P.-Refining, Jack J. Horton, Senior V.P.-Financial & Administration, and Frank L. Jones, Senior V.P.-Production, review capital expenditures for new facilities.

Bottom—Portable drilling rig being erected in Colorado by Standard Oil of Indiana (Amoco). Under an agreement signed in 1969, Amoco and Champlin thus far have drilled more than 1,000 wells in certain Rocky Mountain areas where Union Pacific owns mineral rights.

PART II—COAL: ROCKY MOUNTAIN ENERGY COMPANY

John M. Kelly, President
Kenneth R. Oldham, General Counsel & Secretary
Wallace D. Hunt, Controller & Treasurer
Dale H. Emling, Manager, Operations & Administration

Coal is America's most abundant conventional energy resource and Union Pacific's Rocky Mountain Energy Company has one of the nation's largest reserves of coal—estimated at more than 10 billion tons. Most of this coal, located in Wyoming, Colorado and Utah, contains less than one percent sulfur. In 1972, a number of significant steps were initiated toward the development of these vast reserves.

Coal Royalties Increase—Royalties paid by other companies mining coal on Rocky Mountain Energy lands more than doubled in 1972, indicating an accelerating pace for coal development in Wyoming and other Rocky Mountain Energy lease areas. Among the companies that signed substantial new leases in 1972 were Rosebud Coal Sales Company and Arch Mineral Corporation both of which already ship large tonnages of coal via Union Pacific Railroad.

New Venture Formed—Formation of Medicine Bow Coal Company, a new joint venture to develop low-sulfur Wyoming coal, was announced in October. The new venture will surface mine coal on lands controlled by Rocky Mountain Energy and by Arch Mineral Corporation, whose subsidiaries each own 50 percent of Medicine Bow Coal. Production is expected to begin in 1974 and to reach an annual rate of three million tons before the close of that year.

John M. Kelly

Research and Development Projects—Three new research and development projects involving coal and gas were announced in 1972. Together with Continental Oil Company and 12 other firms in the energy field, Rocky Mountain Energy is participating in the world's first commercial-scale demonstration of upgrading coal gas to the quality and purity of natural gas by methanation. The process combines carbon monoxide, an unwanted by-product of conventional coal gasification, with hydrogen to produce methane, the chief component of natural gas. Successful in laboratory tests, the program aims to demonstrate on a commercial scale the new method to raise the heat content of coal gas. New facilities are being constructed in Scotland where a coal gasification plant is already in operation. The facilities are expected to be completed in mid-1973 and will be capable of producing up to 2.6 million cubic feet a day of pipeline quality gas.

In December, Rocky Mountain Energy joined with the FMC Corporation and four other companies in a venture to develop the technological potential of the FMC "COGAS" process for converting coal into critically needed pipeline quality gas and synthetic crude oil.

Looking Ahead Beyond Surface Gasification—Rocky Mountain Energy is contributing coal and the use of its land for a field project to test the technology and economics of gasifying coal in place underground. The tests, being conducted in Wyoming by the U.S. Interior Department, Bureau of Mines, will run for about two years. A successful process could ultimately eliminate the need for mining the coal to be gasified and would produce clean burning, low-sulfur fuel.

Top—Rocky Mountain Energy's surface and underground reserves are estimated at more than 10 billion tons, most of which is low-sulfur coal.

Bottom—Wyoming's coal industry shipped millions of tons of low-sulfur coal into the Midwest during 1972 for use by power utilities. Royalties are paid to Rocky Mountain Energy by companies that mine coal on lands in which it owns mineral rights. Hundreds of Wyoming coal shipments annually are made via Union Pacific Railroad unit trains.

Venture Terminated—A joint venture formed in 1971 between Rocky Mountain Energy and Eastern Associated Coal Corp., was terminated by mutual consent in December, 1972. The venture, Rocky Mountain Associated Coal Corp., was liquidated and its small surface mine in Wyoming was closed. Reclamation of the mined land was completed before the end of the year.

PART III—OTHER MINERALS: UNION PACIFIC MINING CORPORATION

James C. Wilson, President
Stuart S. Merwin, Vice President

The third operating unit in Union Pacific's Resources business area, Union Pacific Mining Corporation, is contributing to the long range solution of the energy shortage through its uranium exploration program. Prospective investment in the development of nickel, copper, and other metal properties also is a growing part of the Mining Corporation's activity. However, its major income at present is derived from the development of Union Pacific's extensive reserves of trona (natural soda ash). This is accomplished through mining leases to other producers and through a 49 percent interest in Stauffer Chemical Company of Wyoming. The growing demand for natural soda ash enabled the Mining Corporation to more than double its net income in 1972.

Trona Development—Demand for *natural* soda ash obtained from trona ore has been growing at a rate of about 12 percent a year. Production capacity for the natural form of this chemical is expected to top 50 percent of all soda ash capacity in the U.S. in 1973, reflecting to a degree the environmental problems encountered in making *synthetic* soda ash. Soda ash is used in the manufacture of glass, soap, alkaline cleaners and in other chemical applications.

In April, 1972, Allied Chemical Corporation signed a lease agreement with the Mining Corporation for the right to mine trona ore on 13 square miles of land in Wyoming. The long-term lease is expected to generate several million dollars in royalties during its life.

Two other companies developing Union Pacific Mining's trona reserves are Stauffer Chemical Company of Wyoming and FMC Corporation. All three companies are increasing trona mining and expanding soda ash production facilities. At year-end 1972, total production capacity of the three firms was 3.8 million tons per year and it is probable that combined capacity will reach a rate of 7.0 million tons by the mid-Seventies.

Despite some difficulties in obtaining sufficient low-cost fuel to operate production facilities, soda ash shipments of all three producers increased in 1972.

Uranium Exploration—Although the nuclear power industry has been slow in developing, its projected rapid growth in the 1975-85 period will require very substantial additions to economically minable uranium reserves.

The Mining Corporation is in an extensive uranium exploration program in partnership with Mono Power Company, a subsidiary of Southern California Edison Company. The latter provides the funds for the program, while the Mining Corporation is the operator and each shares equally in any discoveries. During 1972, additional types of uranium geologic occurrences, including hard rock areas, were investigated, using airborne and surface reconnaissance and sophisticated geological and geophysical techniques.

Top left—Union Pacific Mining geologists survey Wyoming terrain to gather data for geologic maps needed in uranium exploration program.

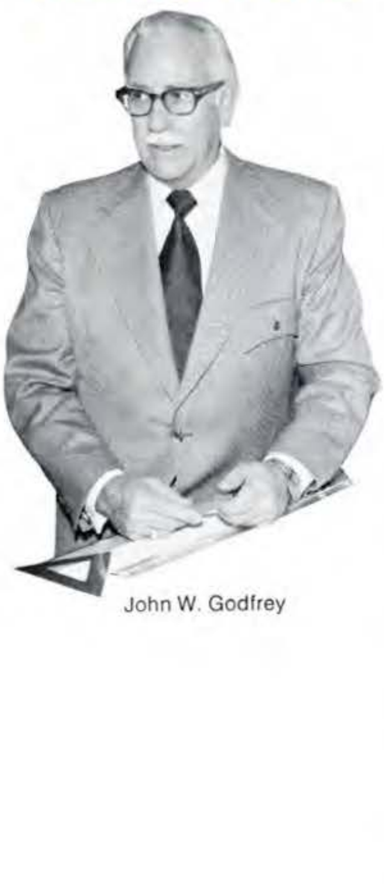
Bottom left—Natural soda ash obtained from trona ore awaiting shipment at Stauffer Chemical Company of Wyoming (49 percent owned by Union Pacific Mining Corporation), provides the Mining Corporation with mining income and royalties.

Right—Mining Corporation engineers enter remote areas by helicopter in their evaluation of potential commercial reserves of minerals.

James C. Wilson

John W. Godfrey, President
Howard F. Hansen, Vice President-Lands
James G. Black, Vice President-Developments
John H. Dyer, Controller

Land development in the west



John W. Godfrey

Upland Industries Corporation is responsible for Union Pacific's real estate acquisition and development activities. Upland maintains an inventory of prime industrial property purchased for development and resale or lease. By attracting and assisting firms in establishing plants, distribution centers, office parks and other commercial facilities on these sites, and on properties owned by others, Upland helps stimulate further economic growth in the western states where it operates.

Upland's industrial parks offer industry-ready sites. Grading, roadways, drainage systems, utilities and industrial trackage all are part of the land package.

Sales and Rentals Rise—Upland's real estate sales and rental income increased to $28 million in 1972 from $11.8 million in 1971. The major portion of the increase was in industrial land and real estate sales.

Industrial and Commercial Development—In addition to producing income from its own land development activities, Upland serves as an industrial development agency for Union Pacific Railroad. It is estimated that firms which selected sites in 1972 will ultimately produce annual freight revenues of more than $11.5 million. This compares with estimated $6 million annual revenues from firms that bought or leased Union Pacific-served sites in 1971 and reflects the willingness of industry to commit capital for expansion when justified by future business prospects.

Among the major projects of $2 million or more announced for Union Pacific-served sites were:

A pet food plant expansion at Topeka, Kansas.

A carpet textile-dyeing facility at Carson-Dominguez Industrial Park near Los Angeles.

A distribution center for audio equipment and home furnishings near Seattle.

A frozen foods warehouse at Laramie, Wyoming.

A wholesale grocery warehouse at Elwood, Kansas.

A plastic-ware manufacturing and distribution facility at Jerome, Idaho.

A prepared food products plant at Richmond, Utah.

A coal-fired steam electric plant east of Rock Springs, Wyoming.

As population growth continued in 1972 to create a demand for land suitable for shopping centers, office parks and other commercial uses, Upland successfully directed increased marketing efforts to sale and lease of commercial properties. Significant projects included a commercial-residential center near Denver, Colorado and a major shopping center at Portland, Oregon. These projects will complement the adjacent properties planned for industrial purposes.

A typical industrial park under development by Upland Industries is its Carson-Dominguez property in Southern California.

In Las Vegas, Nevada, the Union Plaza Hotel, built by Upland and leased to an independent operator, completed its first full year of operation in 1972 providing Upland with increased rental income.

Residential Properties—Slowness in the economic recovery of the aerospace-based economy of Southern California continued to hold back demand for houses and apartments in that area in 1972. Despite this market weakness, Upland by year end had sold or committed to sell all but four of the 36 homes that it constructed at Whittier in 1971.

In August, "The Pines," a 297-unit apartment complex at Culver City, California was sold to Brooks Harvey Realty Investors for an amount in excess of $5 million.

Upland Industries Corporation sells fully-developed industrial land. Industrial park development starts with grading (top left, at Denver, Colo.), paving and installation of utilities and drainage systems. Soon building construction begins to fill the park with plants and distribution centers (top right, at City of Industry, Calif.). Manufacturing operations are a growing trend for Western industrial site usage. An example is this Walter Carpet Mills plant (bottom, also City of Industry) on an Upland site served by Union Pacific Railroad.

UNION PACIFIC CORPORATION

Organization-Part I

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.

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

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 of the Board and
Chief Executive Officer, BMA Corporation,
Kansas City, Mo.

John C. Kenefick, President,
Union Pacific Railroad Company, Omaha, Nebr.

Oscar T. Lawler, Chairman, Executive Committee,
Security Pacific National Bank, Los Angeles, Calif.

Harold B. Lee, President,
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, Chairman 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 B. M. Place, Chairman of the Board,
President and Chief Executive Officer,
The Anaconda Company, New York, N.Y.

Robert W. Roth, President and Chief Executive Officer,
Jantzen Inc., Portland, Ore.

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

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

*Executive Committee

Organization continued on page 20


Elbridge T. Gerry


Frank E. Barnett


James H. Evans


Edd H. Bailey


Earl Baldridge


Courtney C. Brown


George S. Eccles


Artemus L. Gates


William D. Grant


E. Roland Harriman


John C. Kenefick


Oscar T. Lawler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Robert A. Lovett


Morris F. Miller


Minot K. Milliken


Hamilton B. Mitchell


George S. Moore


John B. M. Place


Robert W. Roth


Reginald M. Sutton


Vernon F. Taylor, Jr.

ALASKA
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
WASHINGTON
Seattle
Tacoma
Aberdeen
Hoquiam
Yakima
Spokane
Eastport
Portland
Walla Walla
Hinkle
La Grande
MONTANA
Butte
OREGON
IDAHO
Boise
Idaho Falls
Twin Falls
Pocatello
McCammon
Granger
Ogden
Rock Springs
Salt Lake City
Patrick Dr
Gasoline
Provo
UTAH
NEVADA
CALIFORNIA
PACIFIC OCEAN
COLORA
Las Vegas
CALNEV PIPE LINE
Los Angeles
Wilmington Beneficiation Plant
Long Beach
ARIZONA
NEW MEXICO
MEXICO
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 Pipelines
Refineries
Gas Processing Plant

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

UNION PACIFIC CORPORATION

Organization-Part II

William S. Cook

William J. McDonald

William P. Raines

Richard N. Little

Harry B. Shuttleworth

Bruce J. Relyea

Charles N. Olsen

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

Richard N. Little
Vice President

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 M. Kelly
President, Rocky Mountain Energy Company

James C. Wilson
President, Union Pacific Mining Corporation

John W. Godfrey
President, Upland Industries Corporation

**Photo of Messrs. Barnett, Evans and Gerry appears on page 2, and presidents of subsidiary companies appear in the appropriate Operations sections of the Report.

Corporate Information

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

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

Minerals
Union Pacific Mining Corporation,
4704 Harlan Street, Denver, Colo. 80212

Land Development
Upland Industries Corporation
Suite 1000, 110 N. Fourteenth St.,
Omaha, Nebr. 68102

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 8, 1973—12:00 Noon, Hotel Utah,
Salt Lake City, Utah
The proxy statement
and form of proxy will be mailed
in early April, 1973.

Helping people develop their potential

Union Pacific Corporation and its consolidated subsidiaries employed an average of 29,732 people during 1972, compared with 30,902 in 1971. Salaries, wages and employee benefits totaled $431.3 million in 1972, compared with $389.4 million in 1971. The 1972 change was primarily due to wage increases granted under labor agreements.

Employee Relations—In 1972, important new steps were taken to improve two-way communication with employees. More than 6,000 Railroad employees gave their opinions, via a confidential survey, about their individual jobs, working conditions and the company in general. Results of this survey underlined areas of strength and weakness in employee relations and also brought into focus the need for improvements, which will be implemented in the near future.

The Railroad also instituted a more formalized orientation program for new employees. The program makes extensive use of audio-visuals and in-person participation by company officers.

In a year of many new programs, still another was resumed: eight groups of key employees participated in two-week, 4,150-mile familiarization inspections of Union Pacific's extensive rail operations. The program is based on the philosophy that the best way to learn about the railroad is to see it operate.

Other important strides in employee relations included the establishment of an employee assistance program designed to help individuals cope with personal problems that may affect job performance, ranging from general emotional difficulties to specific debilities such as alcoholism.

Management Development—Each year several Union Pacific executives are selected to attend advanced management programs at Harvard, Stanford or Columbia. The study programs range from about two to 13 weeks in duration.

Several new programs in management development were introduced in 1972. One hundred fifty middle managers participated in one-week seminars sponsored by the Railroad's personnel department; and 20 general officers of the Railroad completed a two-week executive development seminar which featured leaders from the business and academic worlds.

Thirty-three Champlin executives attended a seminar on "Management Style and Its Effects on Motivation." Champlin also sponsored a motivation and productivity workshop series for supervisors.

At the Mining Corporation's quarterly seminars key personnel concentrated on the human relations aspects of management.

Education and Training—In 1972, more than 400 new switchmen completed a two-week course introducing them to railroad operating procedures and 200 apprentices continued their formal training toward skilled crafts in the railroad shops.

The Railroad's tuition aid program in 1972 continued to help employees to obtain college degrees or new skills to improve their job performance. More than 300 men and women received reimbursement for part of the cost of tuition, books and fees. Employees at Champlin attended evening classes on a tuition-paid basis.

A new scholarship program for dependents of employees was introduced by the Railroad in 1972. The program will be on a competitive basis for 25 renewable $400 college scholarships.

Top—New crew cars for Maintenance of Way personnel provide comfortable sleeping and dining quarters while crew is away from home.

Middle—Eight tours averaging 4,150 miles were conducted by the Traffic Department in 1972 to give first-hand knowledge to Union Pacific Railroad employees of how and where the Railroad conducts its business. This group is learning the characteristics of specially equipped freight cars at yard in East Los Angeles, Calif.

Bottom—Sales meeting for Champlin employees shows new packaging and emphasizes marketing the full line of Champlin products.

CORPORATE RESPONSIBILITY AND COMMUNITY RELATIONS

Should a business corporation be concerned about the quality of the society in which it operates? The management and employees of Union Pacific firmly believe it should. They endorse the premise that corporate responsibility is compatible with the profit motive, and enhances profitability. Business does not operate in a vacuum. Effective and intelligent action in environmental protection and in helping make the communities we serve better places to live benefits the Corporation and its stockholders. Community progress and a labor pool with improving skills are good for business. Employees with concern for the welfare of others are more likely to be interested in serving customers skillfully. They put substance behind the "We Can Handle It" slogan.

Union Pacific Foundation —The Foundation was created more than a decade ago to afford professional management of one of the channels of good corporate citizenship—financial aid to educational, medical and human welfare institutions, primarily in the states in which Union Pacific operates. Grants of assistance are given where determination has been made that funds will be used wisely for projects that will have wide benefits to the community. During the past five years, the Foundation has made grants totaling more than $5 million to colleges and universities, hospitals, health research, human welfare and cultural activities. An example of special Foundation grants is the aid given in 1972 to agencies providing help to the victims of the tragic flood at Rapid City, South Dakota and those hard hit by Hurricane Agnes.

Community Fund Drives—While many other businesses, like the Corporation and its subsidiaries, sponsor voluntary

Waste water from railroad operations and maintenance at North Platte, Nebr. is routed through various treating processes to remove impurities and the resulting clean water is piped to this pond. The pond is stocked with fish, which speaks well for its purity.

fund campaigns for groups such as United Funds, Union Pacific people have been outstanding in their percentage of participation and in the amounts raised. Employee clubs also have been successful in raising funds for many worthy causes. For instance, a North Platte fund drive sponsored by UP Junior Old Timers Club No. 7 raised more than $10,000 to purchase a leukemia isolation unit—the state's first—for the University of Nebraska Medical Center at Omaha.

Scholarship Programs—For 52 years, Union Pacific Railroad has offered two agricultural scholarships in each of 196 counties it serves to 4-H Club and Future Farmers of America members. In 1972, the dollar amount of the individual scholarships was increased and there were 265 winners. Since the beginning of the program in 1921, over 11,500 awards have been made in helping young men and women further their education.

Champlin Petroleum awarded eleven university scholarships totaling $16,500 in 1972 for five different schools. The scholarships cover studies relevant to Champlin's operations: engineering, business and geology.

Environmental Programs — Although the Corporation's environmental problems are less severe than those of heavy manufacturing industries, Union Pacific has invested $26 million in environmental protection over the past three years.

For example, Union Pacific Railroad is building waste water treatment plants that are scheduled to be in operation during 1973 at Hinkle, Oregon and Las Vegas, Nevada, in addition to several others already in operation.

Champlin Petroleum is building waste water recycling and disposal facilities at its Wilmington oil field in California in connection with its water flooding method for secondary recovery of oil. Various facilities constructed in recent years at the field and at Champlin's nearby oil beneficiation plant have helped improve the quality of water in Long Beach harbor.

Representative of Union Pacific's projects in 1972 to prevent air pollution were: the Railroad's construction of a powerhouse building in which gas-fired boilers were installed to replace oil burners, thereby preventing soot emission; and Champlin's installation of recovery systems to prevent fuel vapors from escaping into the air while trucks are being filled at Calnev Pipe Line terminals in California and Nevada.

The Environmental Control Committee of Downtown Omaha, Inc. gave its Special Recognition Award to the Union Pacific Railroad in 1972 for efforts in maintaining a good environment.

"We see today a social awareness among businessmen which is born of the knowledge that the problems exist and must be dealt with effectively."

—Frank E. Barnett, Chairman of the Board, from an address to business students in the Tandy Distinguished Lecture Series at Texas Christian University.

"With the high price that Americans will have to pay for a clean environment, it is important that we avoid throwing money away on hasty programs that prove to be counter-productive . . . Instead, we must try to move in a rational and practical way to achieve a better life for our citizens in terms of both their economic and environmental well being."

—James H. Evans, President, from an address before the Governor and General Assembly of the Commonwealth of Virginia.

Other Community Relations Highlights— At Spokane, Washington Union Pacific rerouted its operations and transferred its interest in the station property to the city for park development needed for Expo '74.

In 1972, Union Pacific Railroad, in cooperation with state authorities, launched a grade crossing safety campaign in Idaho. The "Life Saver" campaign focused attention on grade crossing safety through an intensive information program and the participation of Idaho law enforcement officers. It was the first time a grade crossing campaign of this magnitude has been mounted by the coordinated efforts of a state and a railroad.

Top—Union Pacific Railroad rerouted its operations and transferred its interest in the Union Station property at Spokane, Wash. to that city for the development of a riverfront park for Expo '74.

Bottom left—The Union Pacific Foundation contributed funds to help construct the $2.5 million Western Forestry Center, an educational and informational facility in Portland, Ore. More than 62,000 persons visited the center in 1972.

Bottom right—Two of Union Pacific Railroad's management trainees, John Blackmon (left) and Ray Schuette, were among many employees who assisted in Omaha's United Community Services campaign in 1972. Mr. Schuette worked full-time at the UCS drive headquarters for about two months while Mr. Blackmon concentrated on business firm solicitation during the drive.

Records achieved in earnings and in gross revenues and sales

Consolidated revenues and sales for the year were more than one billion dollars for the first time in the history of Union Pacific. The total of $1.1 billion for 1972 was $117.2 million higher and represented an increase of 12 percent over 1971. The increased revenues and sales were instrumental in realizing net income over the one hundred million dollar level—to $104.5 million which is also a first. This was an increase of $14.3 million or 16 percent greater than 1971 income before extraordinary items. Earnings per share in 1972 were $4.62 compared with a restated $4.01 of a year earlier. Earnings for 1971 were restated to include equity in income of unconsolidated affiliates. The table below reflects the contribution of the respective business areas to gross revenues and sales and to net income before extraordinary items.

Net income for 1971 of $90.1 million as shown in the table is before an extraordinary charge of $65.1 million net of applicable Federal income taxes. The extraordinary charge resulted from establishment of a reserve for current and future costs relating to the discontinuance of passenger service and entry into Amtrak.

Income from transportation operations improved by 7 percent over the previous year when operating results were depressed in the last half by an 18-day rail strike, a generally sluggish economy, the effect of the coal miners' strike and the shutdown of the West Coast docks. Transportation revenues increased during 1972 primarily due to an upturn in freight volume, especially in lumber, automobiles, wheat, soda ash and coal, coupled with the effect of nominal freight rate increases. Partially offsetting the higher revenues were substantial increases in operating expenses occasioned by wage rate and material price increases which exceeded revenue realized from freight rate increases by $16 million.

Income from natural resources which includes petroleum, coal and other mining operations was 39 percent higher in 1972 on an increase in revenues of 8 percent. The increase in sales volume of petroleum products was realized from greater oil refining capacity and stronger wholesale and retail prices of refined products during the last half of the year. Natural resources income further benefited from higher sales of soda ash as well as substantial increases in royalties related to expanded production of coal and trona and from extension of the Amoco (Standard Oil of Indiana) exploration agreement. Results of operations were affected adversely in 1971 by the establishment of a $6.1 million reserve for possible losses relating to investment in an oil and gas lease on the North Slope of Alaska.

Net income from land operations increased 46 percent to $3.7 million on expanded sales of industrial, commercial and residential property combined with receipt of a full year's rental income in connection with the Union Plaza Hotel in Las Vegas.

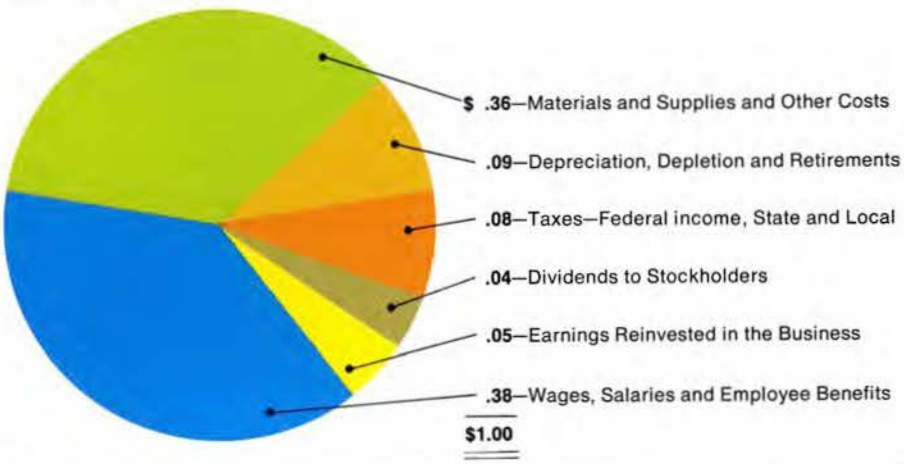
FINANCIAL INDEX

Gross Revenues and Sales by Business Area	(In Thousands) 1972	1971	Change
Transportation Revenues	$ 779,412	$700,469	$ 78,943
Natural Resources Sales	286,956	264,972	21,984
Land Sales and Rentals	28,029	11,800	16,229
Gross Revenues and Sales	$1,094,397	$977,241	$117,156

Net Income by Business Area	(In Thousands) 1972	1971	Change
Transportation	$ 81,235	$ 75,660	$ 5,575
Natural Resources	30,990	22,239	8,751
Land	3,655	2,504	1,151
Corporate Interest Costs and Expenses	(11,401)	(10,259)	(1,142)
Net Income	$ 104,479	$ 90,144	$ 14,335

Consolidated revenues and sales for 1972 totaling $1.1 billion were utilized as follows:

Allocation of the 1972 Revenue Dollar—



Cash Flow—Cash flow from operations of $248 million continued to increase in 1972 and was $26.7 million higher than 1971. Funds generated from operations financed the majority of the capital expenditures necessary for future growth, a substantial reduction in corporate indebtedness and dividend payments to stockholders.

Capital Expenditures—During 1972 a total of $150.0 million was expended for capital improvements compared with $178.7 million in 1971. Expenditures by business area were as shown below:

Capital Expenditures by Business Area

	(In Thousands) 1972	1971
Transportation	$114,005	$127,119
Natural Resources	35,113	41,738
Land	832	9,829
	$149,950	$178,686

Capital expenditures for transportation amounting to $114.0 million in 1972 included $91.8 million for acquisition of locomotives, freight cars and other equipment. Capital expenditures for natural resources of $35.1 million relate primarily to petroleum operations and include expenditures for acquisition of leases, oil and gas field development costs, and costs relating to expansion of refineries, retail service stations and pipelines. Capital expenditures by land operations in 1972 were nominal while expenditures in 1971 related principally to completion of the Union Plaza Hotel in Las Vegas.

Financing—Total debt at December 31, 1972, amounted to $637.7 million comprised of $124.6 million payable within the ensuing year and $513.1 million maturing after one year. The 10 percent decrease in borrowings from the year earlier balance of $707.4 million was a result of the strong cash flow which was utilized to reduce commercial paper outstanding

($25 million), credit lines with participating banks ($90 million), equipment obligations ($34.8 million) and other debt. Railroad equipment financing completed during the year totaled $85.6 million. Further, in January, 1973, debt outstanding under the credit agreements with participating banks was fully repaid thus resulting in unused bank credit lines of $265 million as of the repayment date.

Federal Income Taxes—Provision for Federal income taxes totaled $55.7 million in 1972 comprised of $21.8 million current and $33.9 million deferred taxes. The principal items which result in an effective tax rate significantly less than the statutory rate are the allowance for depletion of natural resources and the investment tax credit. The latter aggregated $13.3 million, $7.7 million more than in 1971.

Stockholders' Equity—At December 31, 1972, stockholders' equity amounted to $1.6 billion. The 22,555,000 shares of common stock outstanding were held by 76,307 stockholders of record. There were 678,480 shares outstanding of 4¾% convertible preferred stock, Series A, held by 2,401 stockholders of record. The $68.0 million principal amount of convertible debentures outstanding at the close of the year was held by 9,917 owners of record.

Dividends paid on common stock in 1972 totaled $2.00 per share representing 43.3 percent of earnings per share. Dividends of $0.475 per share were paid on outstanding preferred stock. This marks the seventy-third consecutive year in which Union Pacific has paid dividends on its common stock.

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, 1972 and 1971 and the related statements of consolidated income, consolidated retained income and consolidated changes in financial position for the two years ended December 31, 1972. 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 1971 financial statements of Champlin Petroleum Company and Subsidiaries (Champlin) whose assets and revenues constituted 10% and 27%, respectively, of the related consolidated totals for that year. These statements were examined by other accountants whose report thereon was furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Champlin in 1971 is based solely upon the report of the other accountants.

In our opinion, based upon our examination and the above-mentioned 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, 1972 and 1971 and the results of their operations and the changes in their financial position for the two years ended December 31, 1972, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 15, 1973

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Statement of Consolidated Income

	1972	1971
	(Thousands of Dollars)	
Revenues and Sales:		
Transportation revenues	$ 779,412	$ 700,469
Sales	314,985	276,772
Total	1,094,397	977,241
Operating Costs:		
Salaries, wages and employee benefits	409,897	369,873
Crude oil and other petroleum raw materials	149,592	128,934
Material and supplies	117,521	109,268
Depreciation, depletion and retirements	95,409	102,866
State and local taxes	33,904	34,433
Other operating costs	114,491	80,455
Total	920,814	825,829
Operating Income	173,583	151,412
Other Income—Net	20,415	23,293
Interest Expense	(33,852)	(35,377)
Income Before Extraordinary Item and Federal Income Taxes	160,146	139,328
Federal Income Taxes (Note 5):		
Current (Net of investment tax credit: 1972, $9,611; 1971, $5,589)	21,809	16,499
Deferred	33,858	32,685
Income Before Extraordinary Item	104,479	90,144
Extraordinary Item, Amtrak Costs Net of Applicable Federal Income Taxes (Note 1)	—	(65,061)
Net Income	$ 104,479	$ 25,083
Earnings Per Share (Note 12):		
Assuming No Dilution:		
Income before extraordinary item	$4.62	$4.01
Extraordinary item	—	(2.90)
Net Income	4.62	1.11
Assuming Full Dilution:		
Income before extraordinary item	4.44	3.87
Extraordinary item	—	(2.74)
Net Income	4.44	1.11

Statement of Consolidated Retained Income

	1972	1971
	(Thousands of Dollars)	
Balance at Beginning of Year (Note 3)	$1,224,563	$1,244,522
Net Income for the Year	104,479	25,083
	1,329,042	1,269,605
Dividends Declared:		
4¾% Convertible preferred stock, Series A	322	139
Common stock—$2.00 per share	45,084	44,903
	45,406	45,042
Balance at End of Year (Note 6)	$1,283,636	$1,224,563

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

	(Thousands of Dollars) December 31, 1972	December 31, 1971
Assets		
Current Assets		
Cash	**$ 27,743**	$ 54,526
Temporary cash investments, at cost, which approximates market	**119,143**	142,825
Accounts receivable	**148,793**	131,457
Inventories (Note 2)	**71,769**	90,038
Other current assets	**18,519**	17,029
Total Current Assets	**385,967**	435,875
Investments (Note 3)		
Investments in affiliated companies	**51,836**	49,303
Other investments, at cost	**74,243**	82,105
Reserve for adjustment of investments in securities	**(16,274)**	(16,274)
Land held for future development, at cost	**69,005**	60,875
Investments—Net	**178,810**	176,009
Properties (Notes 4 and 6)		
Transportation property:		
Road	**989,453**	986,647
Equipment	**1,363,470**	1,317,840
Other transportation property	**11,052**	9,257
Total transportation property	**2,363,975**	2,313,744
Oil and gas property	**461,037**	445,784
Other property	**57,072**	58,186
Less—reserves for depreciation, depletion, and amortization	**(766,549)**	(745,679)
Properties—Net	**2,115,535**	2,072,035
Excess of Investment in Consolidated Subsidiaries Over Equities in Recorded Net Assets	**71,986**	72,085
Other Assets and Deferred Charges	**56,312**	23,658
Total Assets	**$2,808,610**	$2,779,662

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

	(Thousands of Dollars) December 31, 1972	December 31, 1971
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	**$ 100,000**	$ 128,000
Accounts and wages payable	**64,749**	50,598
Accrued liabilities:		
Federal income taxes (Note 5)	**11,786**	7,166
Taxes—other than Federal income taxes	**22,921**	22,798
Interest	**8,940**	8,965
Other accrued liabilities	**75,761**	78,524
Dividends payable	**11,995**	11,800
Long-term debt due within one year	**24,568**	34,849
Other current liabilities	**11,547**	7,946
Total Current Liabilities	**332,267**	350,646
Long-Term Debt Due After One Year (Note 6)	**513,116**	544,548
Deferred Federal Income Taxes (Note 5)	**294,044**	251,104
Casualty and Other Reserves (Note 1)	**82,897**	98,675
Other Liabilities and Deferred Credits	**16,624**	27,656
Stockholders' Equity		
Preferred stock—no par value, 10,000,000 shares authorized; convertible preferred, Series A, $10 stated value, 678,480 shares outstanding (Note 11)	**6,785**	6,785
Common stock—$10 par value, 30,000,000 shares authorized and 22,555,000 outstanding (22,470,893 outstanding in 1971) (Notes 8 and 11)	**225,550**	224,709
Paid-in surplus (Note 11)	**53,691**	50,976
Retained income (Note 6)	**1,283,636**	1,224,563
Stockholders' Equity	**1,569,662**	1,507,033
Total Liabilities and Stockholders' Equity	**$2,808,610**	$2,779,662

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Statement of Consolidated Changes in Financial Position

	(Thousands of Dollars) 1972	1971
Source of Funds		
Operations:		
Income before extraordinary item	**$ 104,479**	$ 90,144
Charges not requiring current outlay of working capital:		
Provision for deferred Federal income taxes (Note 5)	**33,858**	32,685
Depreciation and other non-cash charges (Note 4)	**100,051**	98,539
Total working capital provided by operations	**238,388**	221,368
Proceeds from long-term financing (Note 6)	**85,600**	93,350
	323,988	314,718
Application of Funds		
Dividends declared	**45,406**	45,042
Reduction of long-term debt	**117,032**	116,489
Capital expenditures:		
Transportation	**114,005**	127,119
Natural Resources	**35,113**	41,738
Land	**832**	9,829
Other items—net	**43,129**	(11,364)
	355,517	328,853
Net decrease in working capital	**(31,529)**	(14,135)
Working capital at beginning of year	**85,229**	99,364
Working capital at end of year	**$ 53,700**	$ 85,229
Components of Increases (Decreases) in Working Capital		
Cash and temporary cash investments	**$ (50,465)**	$ (43,773)
Accounts receivable	**17,336**	(12,047)
Inventories	**(18,269)**	14,195
Accounts and wages payable	**(14,151)**	11,291
Short-term borrowing	**28,000**	24,736
Other—net	**6,020**	(8,537)
Net decrease	**$ (31,529)**	$ (14,135)

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

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. Prior to 1972 investments in affiliated companies where the Company owned 50% or less of the stock were reflected in the financial statements at cost. Effective January 1, 1972 Union Pacific adopted the equity method of accounting for such investments in conformity with Accounting Principles Board Opinion No. 18.

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—Provisions for depreciation are computed primarily on the straight-line method based on estimated service lives of depreciable properties, except for rails, ties and other track material owned by Union Pacific Railroad Company (Railroad). With respect to the latter, the generally accepted industry alternative of replacement accounting is utilized. Under this method, replacements in kind are charged to expenses and betterments (improvements) are capitalized.

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. Nonproducing leasehold costs are not amortized but are charged against income when the leases are deemed worthless for future exploration purpose. 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. 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 1971 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.

2. Inventories

Inventories comprised the following at December 31:

	($000) 1972	1971
Materials and supplies	$29,383	$33,066
Real estate developed and held for sale	25,377	36,150
Refined products	13,097	17,932
Raw materials—Crude oil	3,912	2,890
	$71,769	$90,038

3. Investments

As described in the accompanying statements of Accounting Policies, the Company changed its method of accounting for investments in affiliates from the cost to the equity method effective January 1, 1972. In connection with implementing this change, retained income shown in the accompanying financial statements at January 1, 1971 was increased by $14,043,000. Net income for the years ended December 31, 1972 and 1971 includes equity in losses from such affiliates in the amounts of $324,000 and $522,000, respectively, as a result of this change.

Other investments include a $43,001,000 investment in 2,149,319 shares of Illinois Central Industries, Inc. common stock, the market value of which exceeded cost by $16,385,000 and $35,180,000 at December 31, 1972 and 1971, respectively. By agreement, this investment is to be disposed of prior to August 10, 1982.

4. Depreciation, Depletion and Amortization

Charges to income as a result of implementation of Accounting Policies described on the preceding page were as follows:

	($000) 1972	1971
Depreciation, depletion and amortization of oil and gas properties	$19,219	$20,099
Depreciation of other classes of property	65,540	63,527
	$84,759	$83,626
Repairs and replacements of track structure	$46,837	$41,157

5. Federal Income Taxes

Federal income taxes payable for 1972 are estimated to be $15,600,000 principally because of deductions arising from cessation of passenger service (Note 1).

Deferred Federal income taxes of $33,858,000 in 1972 and $32,685,000 in 1971 result primarily from deductions for depreciation and amortization of property for income tax purposes in excess of depreciation recorded on the books. In 1972, the provision for deferred Federal income taxes was reduced by $3,728,000 representing investment tax credit carryforward to be utilized against future taxes payable.

Federal income tax returns have been examined by the Internal Revenue Service through 1967 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.

6. Long-Term Debt

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

	($000) 1972	1971
Credit Agreements with participating banks, with interest at prime rate and ¼% above, due 1974 to 1975[a]	$100,000	$190,000
Refunding Mortgage Bonds, Series C, 2½%, due 1991[b]	43,279	45,725
Debenture Bonds, 2⅞%, due 1976[c]	32,201	32,201
Equipment Obligations, 5⅜% to 8¾%, due 1974 to 1987	269,633	208,601
Convertible Debentures, 4¾%, due 1999[d]	68,003	68,021
	$513,116	$544,548

(a) The credit agreements contain certain covenants, one of which limits payment of cash dividends to income earned subsequent to December 31, 1969. At December 31, 1972 $140,754,000 of retained income was available for dividends. At February 15, 1973, the total amount outstanding at December 31, 1972 under the credit agreements had been repaid. At February 25, 1972 $115,000,000 of the amount outstanding at December 31, 1971 had been repaid. Commencing February 26, 1973 all interest will be computed at bank prime rate plus ¼%.

(b) After deducting $20,612,000 in 1972 and $18,899,000 in 1971 held in Treasury.

(c) After deducting $8,581,000 in 1972 and $8,878,000 in 1971 held in Treasury.

(d) 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. Approximately 3,300 miles of Railroad main and branch line track, including certain railway equipment, supplies and other facilities are subject to the lien of the mortgage securing the above refunding mortgage bonds. Railway equipment under outstanding equipment trust certificates and purchase contracts is subject to prior lien.

7. 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 for the funded plans issued in 1972 indicated that as of December 31, 1971 the market value of pension plan assets was sufficient to cover the actuarially computed value of vested benefits and the unfunded actuarial liability amounted to $51,929,000. Charges to operations include $9,392,000 ($5,920,000 under funded plans and $3,472,000 under unfunded plan) in 1972 and $9,555,000 ($6,220,000 under funded plans and $3,335,000 under unfunded plan) in 1971. Such charges applicable to the funded plans include prior service costs which are being amortized over 30 years.

8. Stock Options

The Company has a stock option plan under which there were 270,600 and 295,400 shares available for granting of additional options to officers and key employees at December 31, 1972 and 1971, 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 1972 and 1971 are summarized as follows:

	1972		1971	
	Shares Under Option	Price Range Per Share	Shares Under Option	Price Range Per Share
Balance, January 1	243,170	$34.38 to 62.50	302,000	$34.38 to 62.31
Granted	27,500	52.63 to 61.57	16,600	47.75 to 62.50
Exercised	(68,800)	34.38 to 49.50	(56,530)	34.38 to 49.50
Expired	(2,700)	34.94	(18,900)	39.63 to 49.50
Balance, December 31	199,170	$34.38 to 62.50	243,170	$34.38 to 62.50
Exercisable at December 31	171,670	$34.38 to 62.50	226,570	$34.38 to 62.31

9. 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 provide (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. The Company has offered to exchange its new $1.80 convertible preferred stock on a share for share basis for the Railroad $1.80 convertible preferred stock which Rock Island stockholders are to receive upon consummation of the merger.

10. Commitments, Contingent Liabilities and Litigation

As of December 31, 1972, the Railroad was contingently liable (a) as guarantor, together with other participating railroads, for principal and interest on certain obligations of various affiliated companies aggregating approximately $63,400,000, of which approximately $6,300,000 is the estimated portion applicable to the Railroad (b) as a participant with other railroads in a service interruption policy with maximum additional premiums of $17,823,000 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 claims 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 obligations, for which substantial damages are claimed. Independent counsel believes that the Railroad and its subsidiaries have substantial defenses to all the claims made in these suits.

11. Stockholders' Equity

The outstanding preferred stock at December 31, 1972, 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, 1,778,541 shares (1,862,648 in 1971) are reserved for issuance upon conversion of 4¾% convertible debentures and 4¾% convertible preferred stock, Series A, and exercise of stock options.

Paid-in surplus increased by $2,715,000 in 1972, principally as a result of issuance of common stock in excess of par value upon exercise of stock options.

12. 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

*Before Extraordinary Item in 1971

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Five-Year Financial Review

(Dollar Amounts in Thousands)

	1972 (2)	1971 (1) and (2)	1970 (1) and (2)	1969 (1)	1968 (1)
Revenues and Sales:					
Transportation Revenues	**$ 779,412**	$ 700,469	$ 677,848	$ 638,560	$ 602,411
Sales	**314,985**	276,772	259,497	52,927	46,289
Total	**1,094,397**	977,241	937,345	691,487	648,700
Operating Costs:					
Transportation Operating Expenses	**635,126**	570,619	562,478	537,706	507,980
Cost of Sales	**285,688**	255,210	235,520	34,709	27,359
Total	**920,814**	825,829	797,998	572,415	535,339
Other Income—Net	**20,415**	23,293	16,357	18,287	14,927
Interest Expense	**33,852**	35,377	39,719	13,876	11,017
Federal Income Taxes:					
Current	**21,809**	16,499	(3,835)	16,840	14,578
Deferred	**33,858**	32,685	38,383	22,253	25,389
Net Income:					
Total (before extraordinary item)	**104,479**	90,144	81,437	84,390	77,304
Per Share (before extraordinary item)	**$4.62**	$4.01	$3.63	$3.76	$3.45
Dividends Declared on Common Stock:					
Total	**45,084**	44,903	44,858	44,858	44,858
Per Share	**$2.00**	$2.00	$2.00	$2.00	$2.00
At December 31					
Current Assets	**385,967**	435,875	477,270	357,054	274,957
Current Liabilities	**332,267**	350,646	377,906	276,329	155,288
Working Capital	**53,700**	85,229	99,364	80,725	119,669
Total Assets	**2,808,610**	2,779,662	2,796,828	2,335,347	2,134,535
Long-Term Debt:					
Due Within One Year	**24,568**	34,849	61,785	30,249	24,687
Due After One Year	**513,116**	544,548	572,325	298,972	218,977
Stockholders' Equity:					
Total	**1,569,662**	1,507,033	1,518,510	1,481,931	1,442,399
Per Common Share	**$69.29**	$66.76	$67.70	$66.07	$64.31
For the Year					
Capital Expenditures	**149,950**	178,686	224,560	178,336	110,029
Operating Cash Flow	**248,020**	221,368	218,371	173,048	164,771
Average Number of Employees	**29,732**	30,902	32,097	31,416	32,662
Total Salaries, Wages and Employee Benefits	**431,309**	389,432	370,019	329,393	313,409

(1) Restated for comparative purposes to include equity in net income or loss of unconsolidated affiliates. (See Note 3 of Notes to Financial Statements.)

(2) Includes the operating results of Champlin Petroleum Company which was purchased as of January 1, 1970.

New programs introduced

In 1972, both the Railroad and Champlin, which account for the bulk of Union Pacific advertising, concentrated their efforts in campaigns and visual restyling to make them stand out from their competition.

The new advertising and sales promotion program introduced by the Railroad is designed to build a "pride of service" motivation among its more than 27,000 employees, and convey an important performance concept to shippers.

"We Can Handle It" is the central theme of the program that is directed to the employees and at the same time promotes Union Pacific capabilities to the many individuals in major shipping centers who help influence the decisions as to which carrier or mode of transportation their firms will choose. TV and radio commercials feature an inspiring song with a modern, upbeat tempo, that emphasizes Union Pacific's long history of dependable service and simultaneously conveys the marketing message, "... we'll carry your great cargo . . ." and "we're going to be on time." Newspaper and billboard advertisements reinforce the "We Can Handle It" theme in communities served by the Railroad.

The new campaign also includes advertisements in trade magazines read by shippers. Monthly direct mail advertising supports our salesmen in their contacts with key managers who influence decisions on selecting carriers of freight.

A large number of employees chosen from a variety of crafts and locations are featured in the TV and radio commercials and printed advertising. Signs, posters, banners and buttons helped launch the campaign at the Railroad's facilities and offices.

To better establish its identity among the many gasoline brands available to the public, Champlin in 1972 began to phase-in a redesigned trademark and distinctive brand name symbol on service station signs, product packages, tanker trucks and promotional literature (see photos on this page). Many Champlin stations are being designed to complement the contemporary appearance embodied in the new trademark.

In addition to its new visual identification, Champlin uses local television "spot" commercials and attractive point-of-purchase merchandising material to support retail gasoline sales. The new program has been well received, retail and wholesale sales have increased, and Champlin has received several awards for its overall station improvements.

Left—Champlin service station at Omaha, Nebr. illustrates restyled trademark and modern building design.

Top right—One of the new series of ads in Union Pacific Railroad's "We Can Handle It" campaign.

Bottom right—Updated packaging of Champlin-branded products replaces old-style containers on dealers' shelves.

Opposite page—"We Can Handle It" slogan makes its appearance all along the UP line on signs and banners (top) and in special audio-visual presentations to introduce the new advertising program to employees.

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THIRD CLASS