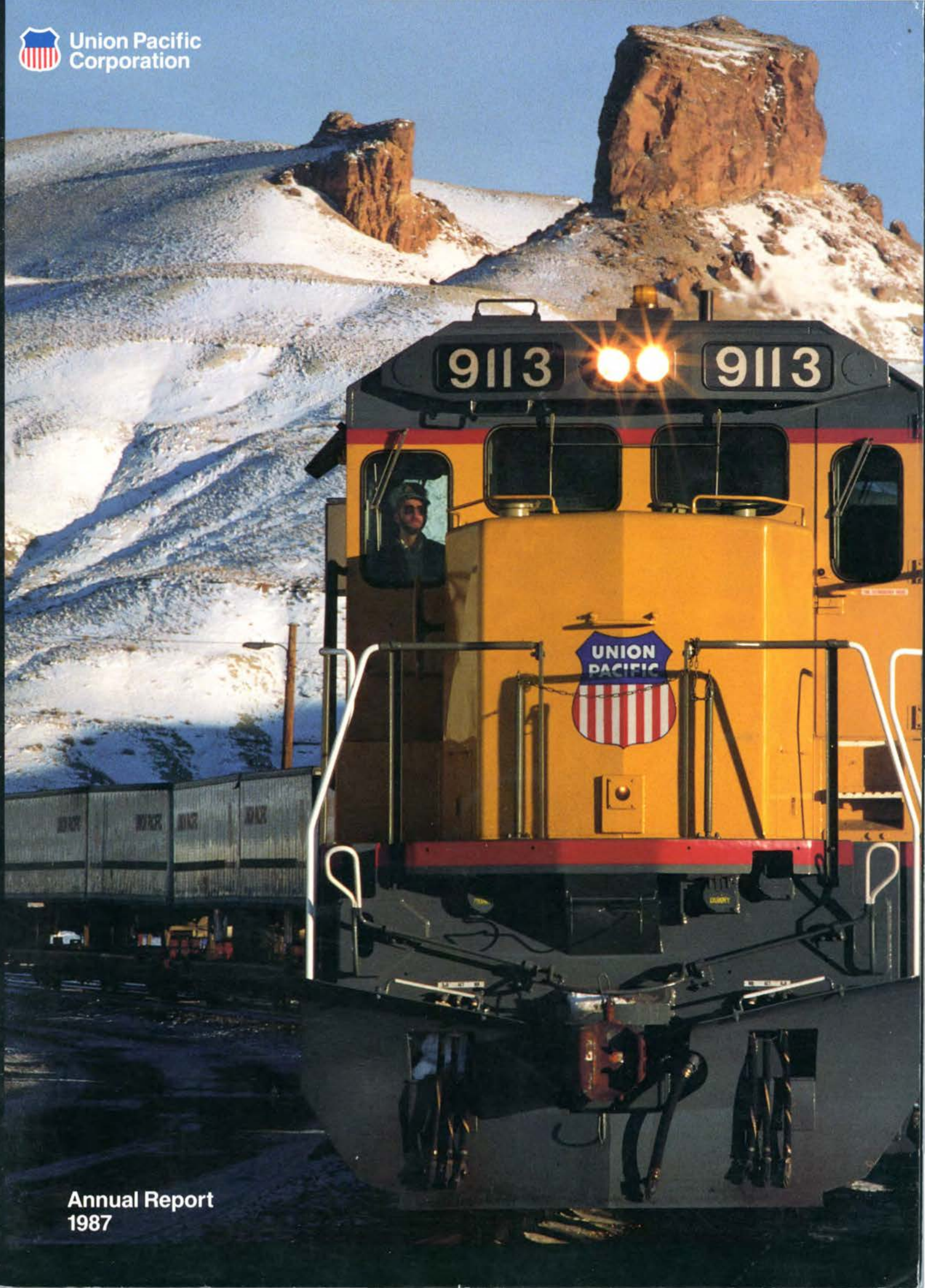
Union Pacific Corporation



Annual Report 1987

Union Pacific Corporation consists of six operating companies engaged in activities vital to the nation's economy – transportation, energy, natural resources, hazardous waste management, computer logistical systems, and real estate development.

Union Pacific Railroad is the leading hauler of finished autos and chemicals, and a leader in intermodal traffic, food products, coal, grain and forest products, operating up to 700 trains a day over nearly 21,000 route miles – the third largest rail system in the industry.

Union Pacific Resources consists of integrated oil and gas operations, which explore for, develop and produce crude oil and natural gas, and manufacture and market petroleum products; and a mining operation that develops soda ash, coal and other minerals.

Overnite Transportation, one of the country's largest general freight trucking companies, serves 39 states through 128 terminals. Overnite specializes in less-than-truckload shipments, transporting a variety of products, including paper, textiles and food products.

USPCI, Inc., which Union Pacific acquired in the first quarter of 1988, provides comprehensive hazardous waste management services to industrial customers and government through its Treatment and Recovery, Disposal, Analytical Services and R & D divisions.

Union Pacific Technologies, formed in May 1987, develops and markets high-tech computer and communications systems and services. It provides computer and communications support to the corporation and markets logistical services to other shippers and carriers.

Union Pacific Realty develops individual sites and buildings, including offices, hotels and research and development facilities, along with business and industrial parks, on its 21,000 acres of prime real estate in major metropolitan centers.

Financial Highlights

	Union Pacific Corporation and Subsidiary Companies Millions of Dollars, Except Per Share Amounts	1987	1986(a)	1985
For the Year	Operating revenues	$5,943	$6,583	$7,804
	Income (loss) from continuing operations	560	(414)	501
	Net income (loss)	583	(460)	501
	Cash from operations	1,124	1,333	1,317
	Capital investments	748	738	1,067
At Year End	Short- and long-term debt	$2,885	$3,061	$2,192
	Common stockholders' equity	3,761	3,408	4,356
Measurements	Per share			
	Income (loss) from continuing operations	$4.90	$(4.13)	$4.18
	Net income (loss)	5.10	(4.56)	4.18
	Common dividends declared	2.00	1.85	1.80
	Debt to total capital employed	32.7%	36.1%	24.7%
	Return on average common stockholders' equity	14.8%	-	10.9%

(a) Earnings before special charge were $485 million and $4.20 per share and return on average common stockholders' equity was 10.4%.

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About the cover: New computer-monitored, fuel-efficient locomotives haul trailers over the snow-covered ridges of southern Wyoming.

Dear Shareholders:

1987 was a good year for Union Pacific. We achieved record earnings and restructured the company to be more responsive to what we see as the future of our Corporation. The Railroad continued its cost reduction program and despite reduced revenues per ton-mile, our carloadings increased, helping us to increase earnings. Union Pacific Resources, a consolidation of Champlin Petroleum and Rocky Mountain Energy, also significantly reduced its costs and increased profits. And we created what we hope will be a long and profitable relationship with the Venezuelan national oil company at our Corpus Christi refinery.

Although Union Pacific Realty earnings were essentially the same as 1986, personnel is being reduced by approximately 30 percent and the company is now well positioned both to aggressively develop our existing real estate holdings and to invest significantly in new real estate projects to enhance future earnings and growth. Overnite Transportation experienced a disappointing year due almost exclusively to intense industry-wide price competition; however, we feel that prices have bottomed out and that Overnite will soon begin to fulfill its original earnings goals.

Rather than reflect on 1987, I would like to speak to our future expectations and hopes:

Strategic Direction

Bill Cook, my predecessor as Chairman and Chief Executive Officer, led our Corporation through an essential strategic repositioning. At first glance these changes may not appear to be particularly striking, but they are extremely important in terms of developing new areas of growth for our Corporation. The Corporation is shifting from a very basic asset-oriented company concentrating on the Railroad and natural resource businesses to a Corporation determined to be on the leading edge of technology in delivering multi-modal transportation services, environmental services, creative oil and gas exploration programs and profitable real estate ventures. While this change in emphasis is taking place, we are simultaneously improving earnings from our basic businesses. The Railroad, although in a highly competitive industry, continues to have cost reduction opportunities, making it more competitive. Our natural resource company, although obviously subject to the whims of OPEC pricing, remains highly selective and successful in its oil and gas exploration efforts.

Railroad

We see continued improvement in our railroad operations. Since 1984 we have climbed from near the bottom to the top of the industry in the most important financial measures - operating income and operating margins - and we have the finest railroad in the country. We are determined to remain number one. We are dedicated to becoming the nation's premier multi-modal transportation services company, and in so doing we fully intend to sustain our commitment to our basic and highly profitable railroad business.

Resources

We are reviewing all assets within the Corporation and are addressing the principal issue that all domestic oil and gas companies face: namely, how do we wisely invest exploration money in that constantly volatile market? Long-term, we are bullish on the oil and gas business. Short-term, we are subject to the ebbs and tides of the market place.

Our mining operations remain profitable, producing earnings of about $60 million a year. We plan to continue to benefit from the exploration of our approximately seven million acres of oil, gas and mineral rights, while avoiding the funding of marginal operations.

Technology

We are considerably more than a basic railroad and resource company. Our computer-based fiber optic and microwave transportation information and control system is the finest in the country, perhaps the world. We are now helping to train Japanese, Chinese and Mexican groups who want to update their railroad communication and control systems to parallel our technology. We have formed a new subsidiary, Union Pacific Technologies, which will enhance our own transportation system, as well as generate products salable to other railroads and transportation modes.

In addition to this move into higher technology, we have recently acquired a 30 percent interest in Skyway Freight Systems, a California-based transportation company which offers its customers one-stop, computerized logistics management. This company, combined with Overnite and the Railroad, should permit us to begin to add both significant value to our transportation services and to make us more cost effective.

Trucking

Although we are disappointed with the 1987 return on our Overnite investment, we continue to feel quite comfortable with this acquisition. Not only is Overnite an extremely fine trucking company, but it has a management team that is dedicated to excellence in both its operation and customer service. We feel there has been a bottoming out of the intense price competition in this industry, and that 1988 will be a much improved year. The synergism of a totally integrated transportation system should benefit all of our transportation-related companies.

Environmental Services

The most exciting opportunity of 1987 has been the acquisition of United States Pollution Control, Inc. USPCI is in the hazardous waste management disposal business, concentrating on the highly technical aspects of this specialized field. USPCI is not just a company with great expertise in the disposal field, but one of the best in the business. It has conducted its operations in a safe and stringent manner to avoid contingent liabilities.

As a shareholder you may know that Union Pacific is likely the largest hauler of hazardous waste in the country. We feel this is a field with tremendous growth potential, a business with very little downside in terms of recession, and it is a business in which both the public and the government will continue to invest a great deal of money for the foreseeable future. We consider this a business that not only complements our present operations, but one that has a great potential in terms of its own market.

In summary, we are looking to the future with great optimism. We feel our basic businesses are sound, cost competitive, and well managed. We feel we are investing in economically resilient ventures, which will enhance shareholder value.

It would be remiss in this letter, and in any Chairman's letter, not to comment on the people side of our business. We have lost to retirement three outstanding contributors to the success of the Union Pacific Corporation. Bill Cook, who basically guided the program which your new management will be implementing; John Kenefick, former Chairman of the Railroad, who has unquestionably been one of this country's outstanding railroad men; and Bill Smith, the former Chairman of our oil and gas operation, who is considered one of the most gifted exploration people in the country.

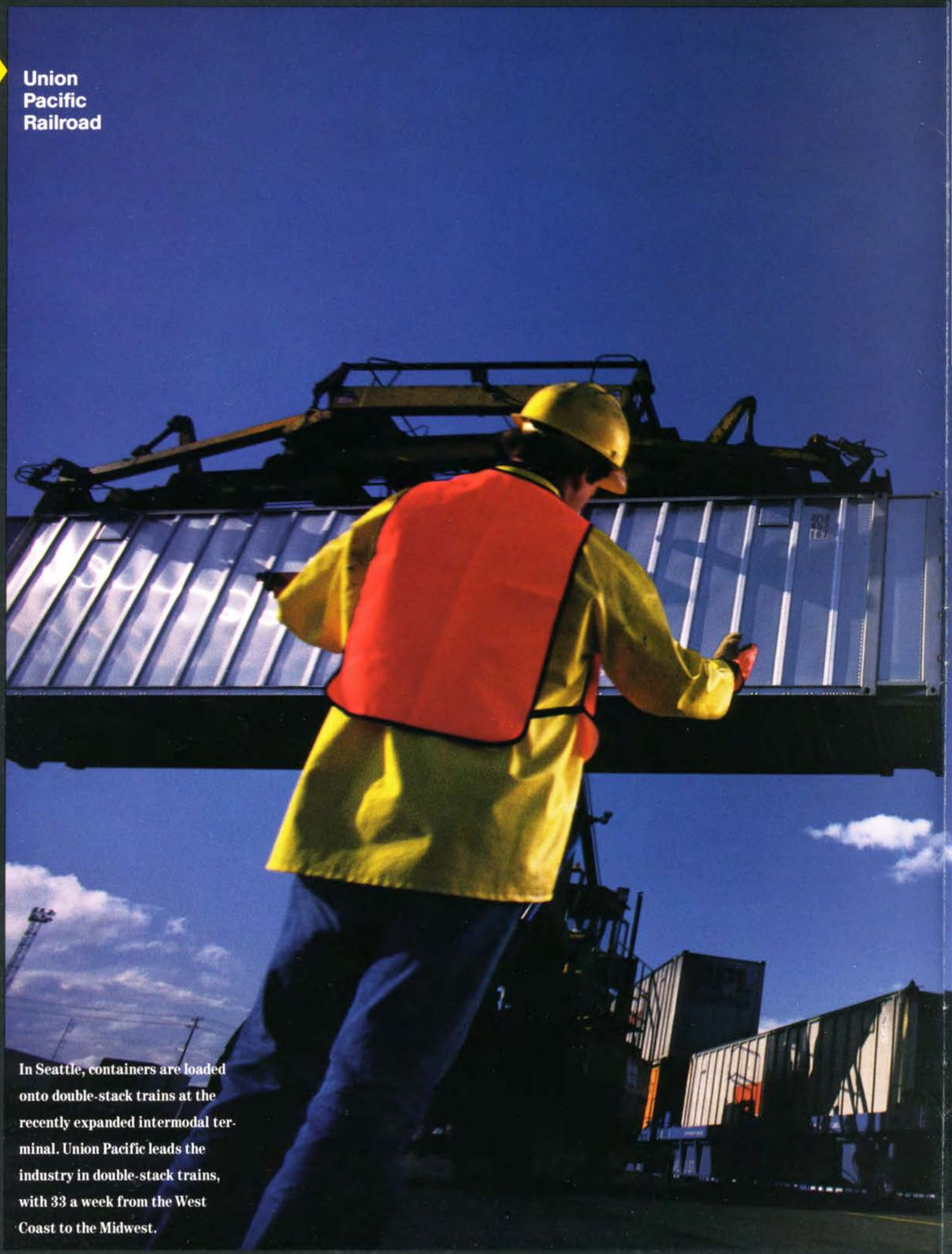
Despite these losses, we feel that the management team we have in place has the capabilities and the vision to continue the excellent stewardship of the past and, most importantly, to continue our earnings growth and improvement in shareholder values. One reason I feel so confident about this is that Union Pacific is an organization with employees dedicated to putting their talents and pride to work towards achieving our ambitious goals.

I am looking forward to serving as your Chief Executive Officer. Not only am I excited about the potential of our company, but I look upon this as a job that will be a lot of fun.

Drew Lewis

Drew Lewis
Chairman and Chief Executive Officer

New York, N.Y.
February 25, 1988



Union
Pacific
Railroad

In Seattle, containers are loaded onto double-stack trains at the recently expanded intermodal terminal. Union Pacific leads the industry in double-stack trains, with 33 a week from the West Coast to the Midwest.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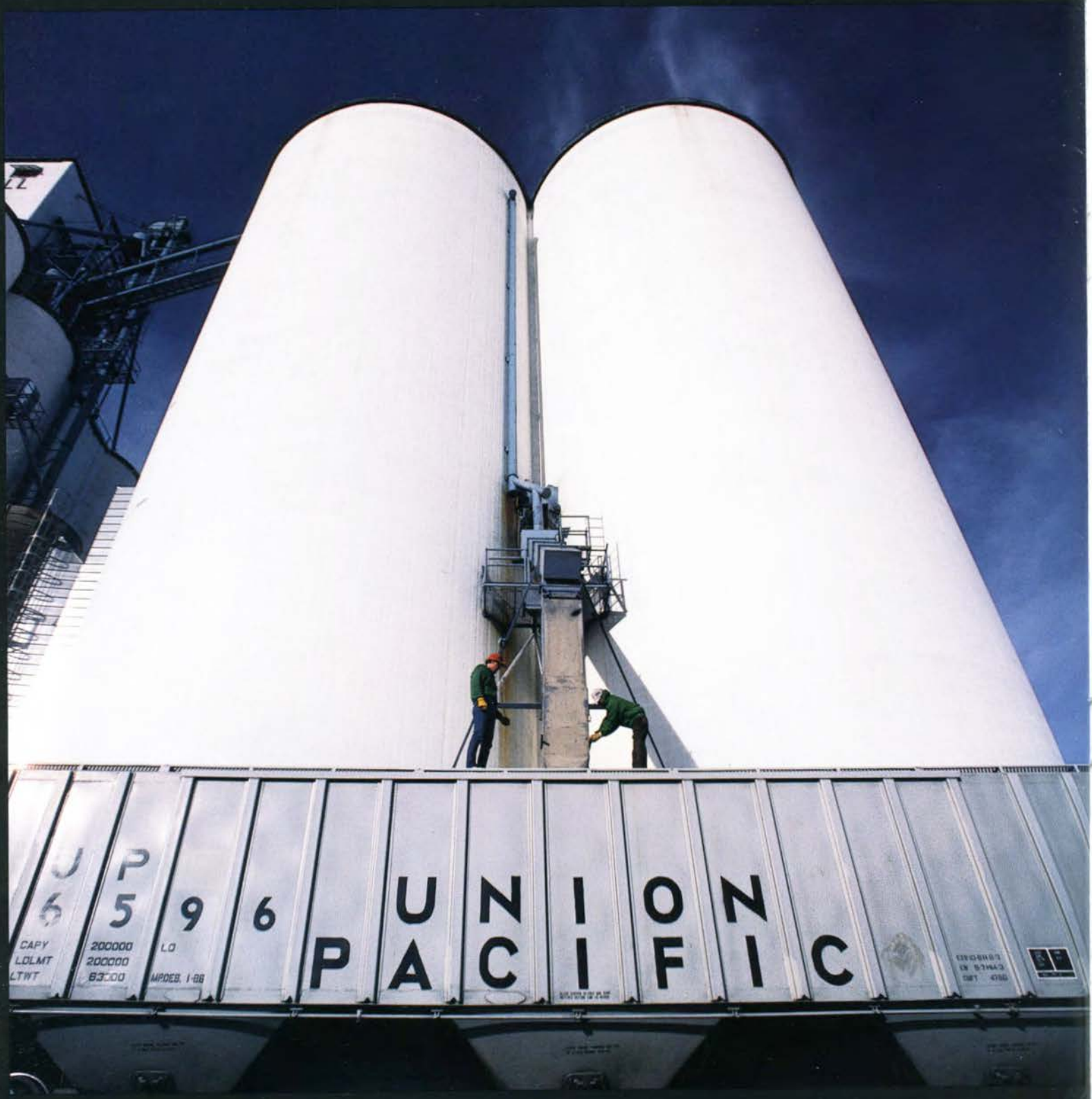


Union Pacific hopper car, above, is loaded with grain at Pickrill, Nebraska, part of the 26 percent increase in grain shipments in 1987. At right, hazardous waste materials are loaded onto a USPCI truck at Clive, Utah. The Railroad is the industry leader in hauling hazardous waste.

Union Pacific Railroad increased its earnings 14 percent to a record $440 million before special items – despite modest growth in revenues to $3.9 billion. The Railroad's second consecutive major earnings gain resulted from ongoing cost reductions, higher volume, and the most dramatic program of productivity improvements and consolidation in many years.

Because of volume-related expenses, and higher fuel prices and personal injury charges, Union Pacific's operating ratio (a key measure of efficiency that compares revenues with expenses) rose to 81.4 percent, compared to 79.8 in 1986. The 1987 ratio remains one of the lowest in the industry. The Railroad further reduced its workforce from 32,700 to 30,100, an 8 percent reduction.

Revenue ton-miles, which were up 16 percent, reached historic highs in 1987. Carloadings were up 8 percent. Grain led this year's surge, with a 26 percent carloadings gain. Construction materials were up 18 percent; intermodal traffic was up 14 percent; food products, 11 percent; chemicals, 8 percent; and coal, 7 percent. Because of the falloff in auto sales, auto traffic was down 13 percent. Competitive price pressures on all commodities and the shift to lower-priced bulk commodities continued to lower the Railroad's revenues per carload by 5 percent.

During 1987, the Railroad adopted a mission statement which simply states the overall objective of the company – to make Union Pacific the safest, most customer responsive, highest quality, lowest cost, most financially successful, and best managed railroad in the country. To meet this objective, UP undertook a major effort to reorganize and streamline its operations.

The Customer Service Center in St. Louis now handles the work of 40 district offices around the clock, seven days a week. It is the only such computer service in the entire rail industry. By using a nationally accessible number (1-800-272-8777), or direct computer-to-computer transmissions, over 60,000 customers can check the status of their shipments and the availability of freight cars. This center has expanded customer service while increasing productivity by more than 30 percent.

A system-wide Transportation Control Center, covering the Railroad's entire 20-state network, is scheduled to begin operating in Omaha by early 1989. This facility will include a locomotive distribution, train management and train dispatching center. This state-of-the-art system will handle the work of eight widely dispersed dispatching centers – from Spring, Texas, to Portland, Oregon – monitoring up to 700 trains a day across 21,000 miles. The Control Center also will handle all train and crew management, track gang management and timekeeping, phasing out centers in three locations. This 21st century Control Center will be housed in the renovated freighthouse, the oldest existing building on the Railroad and one of Omaha's most historic structures. E.H. Harriman bought the Railroad at auction on the steps of the freighthouse on November 1, 1897.

The Operating Department, which represents 85 percent of the Railroad's workforce, has been totally reorganized. Nine layers of management have been squeezed down to four, and a great deal of operating authority has been pushed down to 30 regional superintendents. This permitted a workforce reduction of approximately 600 employees. The focus of the change is improved customer responsiveness – providing reliable, high-quality, low-cost service for every Railroad shipment.

A total focus on customer requirements also underlay the reorganization of the Marketing and Sales Department. The Railroad reorganized the department into three areas of concentration. Forty-seven national account managers focus on UP's top 200 customers, or the largest segment of its business, while other account managers handle medium to large accounts. The new telemarketing sales force, also headquartered in Omaha, will generate new business by national telephone prospecting to approximately 20,000 smaller or potential customers.

This same customer focus is prevalent in all of the recent restructuring of the Railroad's departments. Trucks carry $130 billion worth of business, which represents a significant opportunity for the Railroad. To make substantial inroads into this market, Union Pacific now offers the most varied menu of customer-sensitive, door-to-door service options to its customers.

Union Pacific Freight Services provides either truckload or less-than-truckload capability on a regional or national basis. Shipments can travel by truck and rail – or by rail or truck alone.

The Railroad also provides shippers with the benefits of its strategic alliances with major steamship companies. In three years, UP has grown from a running start to an industry-leading, 33 double-stack trains a week between the West Coast and the Midwest. The Railroad completed a $4 million expansion of its Seattle intermodal yard and plans a $12 million investment in its Los Angeles yard, along with $10 million for sidings between Los Angeles and Salt Lake City. Recently the company began fast double-stack service from Chicago to Los Angeles in 52 hours. These trains offer head-to-head competition with trucks. The Mark V RoadRailer provides flexible truck-over-track service that can go right to a customer's door. The RoadRailer has both truck and rail wheels and can be pulled anywhere. UP acquired 175 Mark V RoadRailers for service on the highly competitive Dallas-to-Chicago run. This new service will use cost-efficient, two-person crews resulting from customer-responsive agreements with labor unions.

Union Pacific's marketing strategy rests on the most advanced technical base in the industry. The heart of UP's service operations – the National Customer Service Center – would be impossible without the Transportation Control System (TCS) and the Automatic Call Directing (ACD) system. TCS schedules and monitors rail operations and performs the accounting function on every item shipped on the Railroad. ACD smoothly distributes over 12,000 incoming calls a day, with a goal of handling over 90 percent of them within five seconds.

To keep its systems up to speed, UP plans a main-frame computer investment of $20 million, which will reap an annual labor savings of more than $23 million. A new work order reporting system, which already is being tested, connects TCS computers directly with UP locomotives, enabling customers to have their data communicated to trains en route. This new system is being developed in conjunction with ATCS (Advanced Train Control System) and will improve customer service and cut expenses by more than $20 million a year.

In addition to technical breakthroughs, the Railroad began to place in service 100 computer-monitored locomotives with greater pulling power and fuel efficiency. The Railroad has also worked with labor unions to reduce crews by one member on 40 percent of UP's trains, largely through accelerated attrition.

A chemical train, below, at Freeport, Texas, adds to the 8 percent gain in chemical carloadings. At left, the Railroad's unique Customer Service Center in St. Louis, which handles customer inquiries on a nationwide basis.

Union
Pacific
Resources

Rising from the waters of the Gulf of Mexico, UP Resources' production platforms mark the Ship Shoal area off the Louisiana coast. The company increased its holdings in the area in 1987.

The Las Animas Arch in Cheyenne County, Colorado, above, was the site of one of many development wells drilled by UP Resources last year. At right, Venezuelan crude oil flows from a tanker to the Corpus Christi refinery, a joint venture with the Venezuelan national oil company.

Union Pacific Resources' after-tax earnings before special items increased by 73 percent to $183 million last year. The company, which was formed in May when two of the corporation's subsidiaries, Champlin Petroleum and Rocky Mountain Energy, were reorganized into a single company, manages all of the corporation's oil, gas and mineral activities.

Improved margins from Resources' Gulf Coast and West Coast petroleum refining and marketing activities were a major source of the increased earnings. Income from exploration and production activities also improved, reflecting continuing benefits from the cost reduction program begun in 1986. Average production costs have declined by 39 percent over the past two years.

Total production of hydrocarbons fell by 8 percent in 1987, mostly reflecting the closing of uneconomic wells and the sale of marginal properties. Price trends for hydrocarbons were mixed. Average prices of crude oil were up 26 percent from 1986, but average natural gas prices were down by 22 percent because of continuing surpluses.

Operating income from the minerals division was virtually flat, as stronger prices and increased volume for soda ash were offset by one-time costs associated with the consolidation of Rocky Mountain Energy and Champlin Petroleum into Union Pacific Resources. The main source of the minerals division's earnings continued to be coal mining activities. Nearly 11 million tons of coal were mined from lands in which Resources has an interest.

Exploration spending remained at relatively low levels throughout 1987, reflecting the adverse price environment, but spending was up for the year as a result of a drilling agreement entered into with Wolverine Exploration Company.

Union Pacific Resources participated in an important find in Canada, where it was part of a drilling group that discovered what appears to be a major reservoir of natural gas approximately 60 miles northwest of Calgary. Shell, the operator of the well, has estimated that the reservoir, which is believed to be part of a 15-mile continuous trend, may hold up to two trillion cubic feet of raw gas. The company holds working interests in 11,200 acres in the area.

Union Pacific Resources also took steps last year to expand its exploration activities overseas, where the prospects of large finds are substantially greater than in the United States. In December the company was part of a successful bidding group that entered into an agreement with the Malaysian government to explore a 9.2 million acre area in the Straits of Malacca, which contains a portion of the North Sumatra Basin, one of Indonesia's largest producing areas. Another drilling group in which the company is participating has reached a preliminary agreement with the government of Ecuador to drill seven wells in the Oriente Basin area of eastern Ecuador.

Resources is also moving aggressively to develop the Las Animas Arch area of southeastern Colorado, where it drilled 24 successful wells last year. At year-end the wells were producing over 2,500 barrels of oil a day.

Oil production in the Point Arguello field, six miles off the coast of California, is expected to come on stream later this year. Resources holds a 20 percent working interest in one of the field's three platforms. This platform is expected to initially produce approximately 20,000 barrels of crude oil a day. Chevron, the operator, has estimated there are approximately 100 million barrels of recoverable oil within reach of the platform.

Resources also reorganized its natural gas marketing organization last year to position itself to take advantage of new opportunities that are likely to develop as a result of the continuing trend toward less regulation of natural gas markets. In addition, the company is working with a group that plans to build a pipeline from the Overthrust area of Utah and Wyoming to central California. Resources has substantial underutilized gas production capacity in the Overthrust area that could be sold if such a pipeline is built.

One of the year's major events was the finalization of the sale of the Corpus Christi refinery to a newly formed joint venture that is owned by Union Pacific Resources and Petroleos de Venezuela, the Venezuelan national oil company. The new joint venture, Champlin Refining Company, has retained the Champlin name and is using it in its refining and marketing activities.

The venture's operating agreement calls for Venezuela to supply substantially all of the refinery's crude oil. This stable supply of competitively priced crude oil will benefit the joint venture by reducing the drastic fluctuations in earnings experienced in the past. Venezuela will also benefit from the joint venture since it provides an assured market for part of the country's crude oil production.

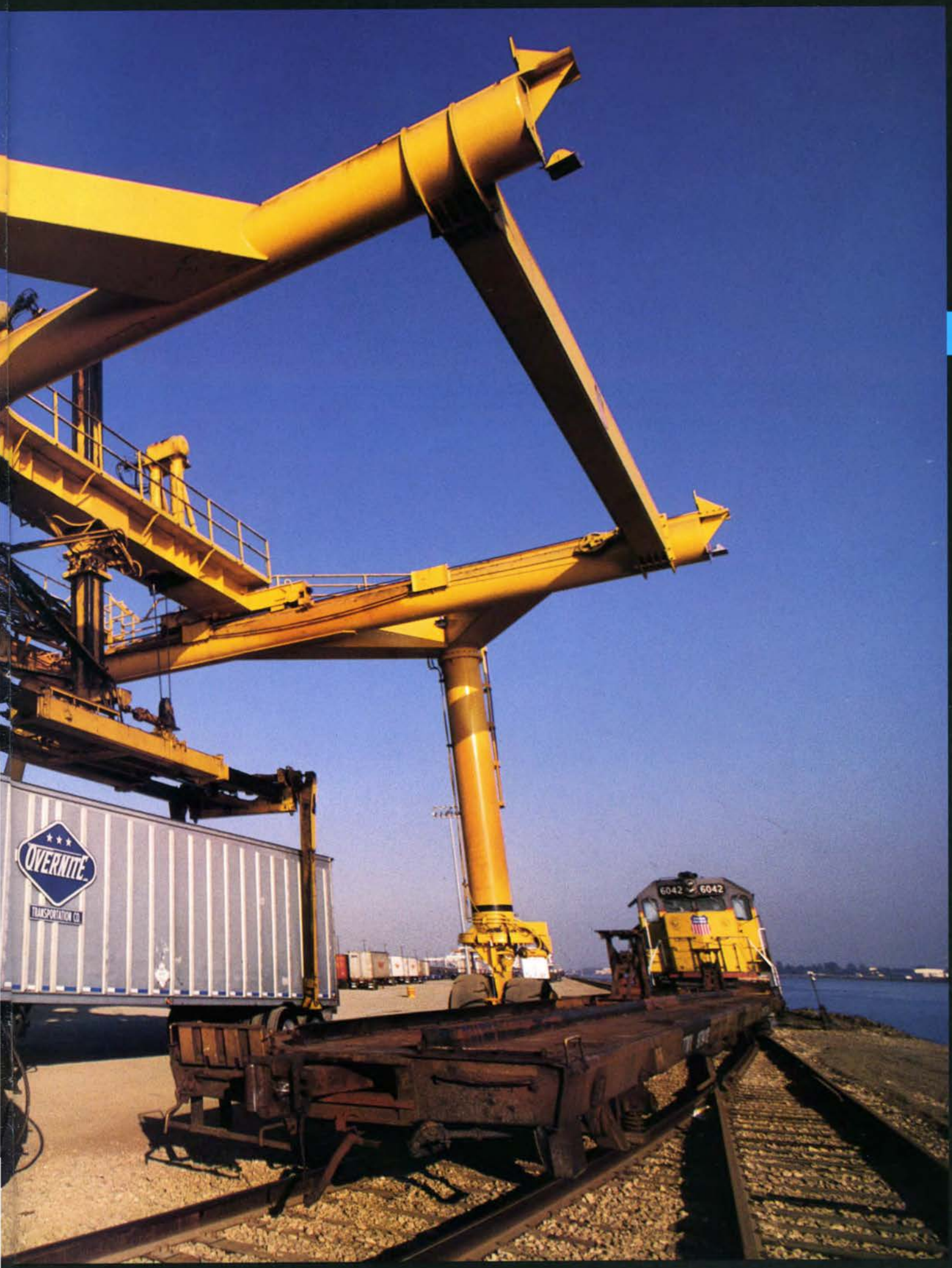
Another important transaction in 1987 was the sale of Resources' 37.5 percent ownership share of the Corpus Christi Petrochemical Company. Though a state-of-the-art facility, the Corpus Christi Petrochemical Company had faced continual oversupply of its principal product, ethylene, making it difficult for the facility to operate profitably.

Resources' minerals division, which, in partnership with Taiwan Power has been exploring for uranium in Arizona and other western states, had several finds in 1987 and is formulating plans for the possible development of one of the finds. The U.S. is currently producing only about one third of its annual uranium needs. With U.S. inventories rapidly declining, the company believes market conditions favor the development of new uranium reserves.

UP Resources has a 19 percent interest in the Matagorda 623 Field, below, one of the Gulf of Mexico's largest gas fields. At left, a shipment of UP Resources' trona is readied for transport to the Far East.

An Overnite trailer is prepared for loading aboard a Union Pacific train at the Railroad's intermodal facility in Oakland, California, for delivery to a midwestern terminal.

Overnite Transportation Company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An Overnite truck outside Lexington, Kentucky, below, heads for Memphis. At right, an Overnite truck is loaded at the Lexington terminal. Overnite increased its traffic 6 percent to 7.9 billion pounds in 1987.

On October 23, 1987, the Interstate Commerce Commission granted Union Pacific authority to control Overnite Transportation Company, which was purchased in October, 1986. Overnite's earnings for 1987 declined slightly to $43 million before amortization of goodwill of $19 million. Overnite's performance compares favorably to an average earnings decline of well over 40 percent for the major less-than-truckload trucking firms. Revenue was up 3 percent to $544 million.

Overnite's volume for 1987 increased 6 percent to 7.9 billion pounds. However, the industry price war drove down the average revenue per load. The company's operating ratio increased from 84.0 to 86.9, primarily because of severe competitive pricing. Overnite's operating ratio remains well below the average for major trucking companies.

Many analysts believe that the trucking industry, which was plagued by a very severe rate war in 1987, has begun to turn the corner. Several marginal carriers already have closed their doors, with their business expected to shift to healthier firms such as Overnite. Prices, though still depressed, have at least stabilized and in some cases seem to be improving. As the industry continues to shake out in 1988, even more business should end up in the hands of efficient carriers – business that analysts estimate may amount to $2 billion annually.

Overnite and Union Pacific are not waiting for market forces to improve earnings. They are taking aggressive measures to brighten the financial picture.

Within a month after the ICC had granted UP control of Overnite, Overnite had created a special stacktrain program that offers truck-competitive, door-to-door service on coast-to-coast hauls. Typically, full truckloads are gathered by Overnite in eastern locations, shipped to Chicago, placed on the Railroad's double-stack trains and hauled to the West Coast. There, Overnite delivers the loads directly to the customer's door. This program balances east-west traffic for both Overnite and the Railroad – and all of it is new business. By year-end 1988, Overnite expects to be shipping 50 loads a day through this program and will expand the concept in the Southeast.

In addition, Union Pacific Railroad/Overnite teams are working to improve Overnite's computer-logistical system and coordinate it with the Railroad's. These teams also are pinpointing other ways to balance traffic volumes for Overnite and Union Pacific – to cut down expensive empty backhauls.

Overnite, working on its own bottom line, increased its use of twin trailers (up to 80,000 pounds) to 21.5 percent of total dispatched business. This enhances the company's load average and shipping flexibility. Overnite also opened 11 terminals, many in gateway cities for the Railroad, bringing the total to 128 terminals in 39 states, including its first terminal outside the United States, in Montreal, Canada.


USPCI

A discarded industrial transformer is about to be placed in USPCI's disposal facility at Grayback Mountain, Utah. Before disposal PCBs are drained from the transformer and placed in steel drums.

A chemist analyzes waste materials at USPCI laboratory in Tulsa. The laboratory is currently being expanded and upgraded to employ the latest technologies. USPCI recently purchased a lime kiln, at right, in Utah, which it plans to convert into an incinerator to process hazardous waste.

USPCI, the corporation's most recently acquired subsidiary, increased revenues by 47 percent to nearly $84 million and net income by 7 percent to $7.3 million last year. Net income was adversely affected by nearly $5 million in unusual costs associated with Union Pacific's acquisition of USPCI. Since 1984, when the company became profitable, net income has grown at a compound annual rate of 64 percent.

The company is continuing to develop and expand its full line of services, providing for the analysis, treatment and disposal of hazardous waste materials. Among the most important steps taken in 1987 was the acquisition of JTM Industries, Inc., a leader in the disposal, development and marketing of innovative uses for various industrial by-products. The company has been especially successful in marketing coal combustion by-products to the construction industry. JTM provides USPCI with various materials it uses in the treatment and disposal of hazardous waste.

In 1987 construction began in Tulsa on a new facility that will house the company's national analytical laboratories. When completed in mid-1988, the $1.3 million laboratory will increase USPCI's ability to analyze all forms of hazardous waste. The company currently has 13 operational and analytical laboratories across the U.S. and Canada.

USPCI last year completed the purchase of the 600-acre Marblehead Lime plant in Utah, where the company intends to develop a major incineration facility. The land is located in a remote area of Utah that is within easy reach of both truck and rail transportation. USPCI has applied for a permit to build an incinerator on the site. Incineration is rapidly becoming the preferred technology for disposing of hazardous wastes.

USPCI is a full-service provider of analysis, treatment, transportation and disposal of hazardous waste materials. Because of recent changes in environmental laws and regulations, the industry's annual revenues are expected to increase rapidly in the next few years, as corporations and municipalities come under pressure to comply with the new laws. The hazardous waste industry had estimated total revenues of approximately $2.5 billion in 1987. Analysts believe that by 1992 annual revenues could exceed $12 billion.

Founded in 1968 to handle waste by-products of an Oklahoma oil company, USPCI (which stands for United States Pollution Control, Inc.) maintains large landfill sites in Utah and Oklahoma, has sales representatives in 37 cities in the U.S. and Canada, treatment facilities in eight cities and a nationwide permit for mobile PCB treatment. The company is one of the few fully integrated companies in the hazardous waste management industry. In a recent survey by the Council on Economic Priorities, a private research organization specializing in environmental issues, USPCI received the highest rating among major hazardous waste companies in waste handling and financial performance.

Union Pacific Technologies

Union Pacific Technologies, created in May, 1987, provides state-of-the-art computer and communications services and systems to the corporation, as well as shippers and carriers, from its St. Louis headquarters.


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UP Technologies markets sophisticated logistical support, ranging from freight car scheduling to administrative services, to such clients as Toyota and the Houston Belt Terminal railroad. Above, planners create a logistical program for a new customer.

Union Pacific Technologies was created in May, 1987, as a new operating company to develop and market high-tech computer and communications systems and services. Headquartered in St. Louis, UP Technologies expects to become a recognized leader in providing technology-based systems and services to the logistics market.

The new company has two basic business thrusts: marketing integrated logistics to other shippers and carriers, both here and abroad; and providing state-of-the-art computer and communications support to the corporation and its other subsidiaries.

The new company will build its business through acquisitions and alliances with other logistics service companies, as well as through the development of new systems and services. Through these and other programs Union Pacific Technologies should be generating more than half its income from external customers by 1992.

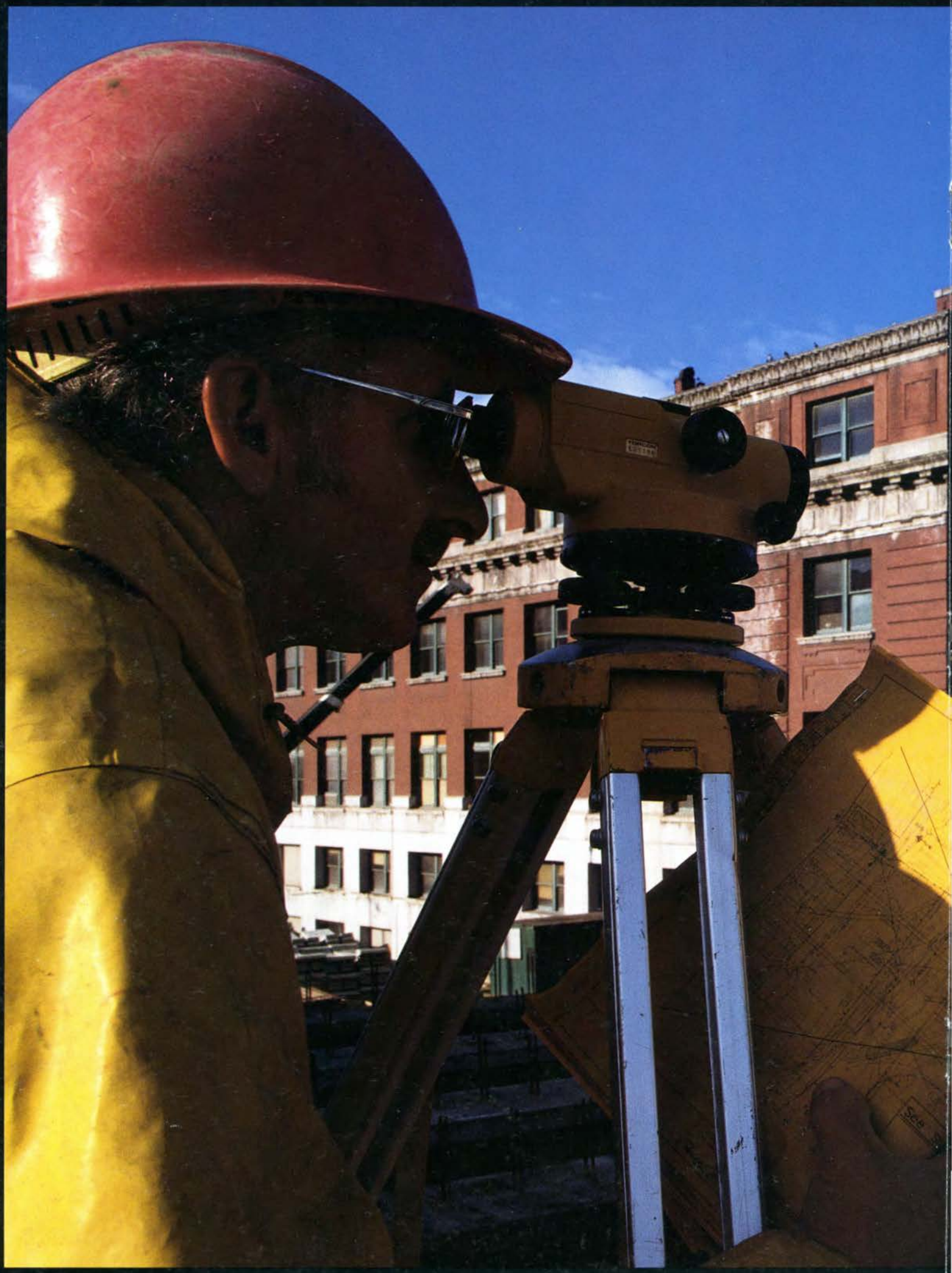
One key service that UP Technologies will market externally is LINCS (Logistics Information Control System), which should be operational by 1990. It will provide a customer with comprehensive shipment management and control for all phases of a shipment's cycle, regardless of the transportation mode. This includes value-added services associated with just-in-time inventory control. The first LINCS' customers will be the Railroad and Overnite, but it will eventually be marketed to truck and other transportation providers.

A second service is the shipper/carrier gateway network. With this system, a shipper can monitor every aspect of hauling goods, from origin to destination. UP Technologies already has a contract to monitor shipments of finished Toyota automobiles moving from the West Coast to interior U.S. destinations.

Another market of major importance to the company is the railroad industry. UP Technologies can provide such sophisticated computer support services as freight car scheduling, shipment tracking, intermodal operations, equipment distribution and administrative services well beyond the technical or financial reach of a smaller railroad. Technologies will offer this service to any railroad, but will focus its marketing efforts on shortlines, regional railroads and smaller Class I railroads. Abroad, UP Technologies and a major computer firm are investigating the feasibility of providing operational control of a European freight system.

The company already supplies all the TCS (Transportation Control System) services – from freight car scheduling to accounting systems – to the Wisconsin Central Limited, a regional midwestern railroad. Farther south, the Houston Belt Terminal railroad has contracted for a total computer support package for the HBT and other terminal railroads in the Houston area, including the Port Terminal Railroad Association, the Texas City Terminal and the Galveston Wharves, Inc.

While developing external markets, the new company is providing broad technical support to the Railroad and the corporation at large. Working with the Railroad to utilize its fiber optics capability, UP Technologies is coordinating efforts that will save the corporation $3 million a year in communication costs.



Seattle's neo-classical Union Station is the centerpiece of a potential UP Realty commercial development. The city's metropolitan transit system is constructing a major underground bus terminal adjacent to the station.

This glistening 410,000 square foot warehouse in Ontario, California, near Los Angeles, was constructed by UP Realty last year. The company also built the 144,000 square foot warehouse, at right, in Hayward, California, near Oakland.

New leadership, a streamlined organizational framework and an emerging development-oriented strategy made 1987 a year of change and achievement for Union Pacific Realty.

The company established new parameters for its acquisition, leasing, sales and development efforts. Though land sales will continue to be a major source of income, the company plans to make construction the primary revenue source in the future. Reflecting its commitment to growth in key markets, UP Realty opened two new offices, in Morristown, New Jersey, and Chicago, while closing five offices where building potential appears more limited.

The new strategic thrust calls for the construction of 10 to 20 buildings annually, with the focus on light industrial and low-rise office facilities located in suburban areas that are expanding in response to the continuing growth of service and high-technology companies.

UP Realty took steps to further these goals in 1987 but also continued to pursue its traditional business. Thus land sales continued to provide the bulk of net income in 1987, as earnings increased by 3 percent last year to $31 million. The company's total revenues were $80 million.

California was an area of significant activity. The company developed additional portions of its 600-acre Vintage Industrial Park in Ontario, 42 miles east of Los Angeles. It also completed a 410,000 square foot warehouse at that location and a 144,000 square foot warehouse in Hayward, California, 14 miles south of Oakland. Currently under construction are warehouses in Ontario and Stockton and an office and manufacturing facility in the Silicon Valley community of Milpitas.

In another important California transaction, the company recently purchased the remaining acreage of the Carlsbad Research Center, a business park in north San Diego County. This 395-acre acquisition includes both improved and unimproved property and more than 117,000 square feet of office space in six buildings.

Other key purchases in 1987 included a 78-acre tract in the Seattle area adjacent to the company's Kent, Washington, suburban business park; and a 116-acre business park in San Bernardino, California, 60 miles east of Los Angeles, purchased in conjunction with a partner. The company also has entered into purchase agreements covering large sites in New Jersey and the Chicago area. Other strategic acquisitions are planned for 1988.

Transportation
Energy
Natural Resources
Environmental Services and Real Estate

Union Pacific Corporation

- Headquarters

Union Pacific Railroad

- Headquarters
- Single and Double Track
- Classification Yards
- Major Intermodal Trailer Container Terminals

M-K-T Railroad

- Route System

Union Pacific Resources

- Headquarters
- Major Petroleum Producing Areas
- Exploration and Development Activities
- Refineries
- Gas Processing Plants
- Product Pipelines and Terminals
- Marine Terminals
- Coal Operations
- Trona Activities
- Mineral Exploration
- Construction Materials Activities

Overnite Transportation

- Headquarters
- Key Terminals

USPCI

- Headquarters
- Hazardous Waste Disposal Facilities
- Transportation Terminals
- Analysis and Research Labs
- PCB Decontamination Facilities

Union Pacific Technologies

- Headquarters

Union Pacific Realty

- Headquarters
- Regional Offices
- Business/Commercial Property
- Sites for Residential Developers


Montreal
UP Realty Operations HQ
UP Railroad HQ
Omaha
Council Bluffs
North Platte
Grand Island
Lincoln
Chicago
Corporate HQ
UP Realty Corporate HQ
New York
St. Joseph
Kansas City
St. Louis
Salina
Topeka
Wichita
Springfield
UP Technologies HQ
Overnite HQ
Richmond
Tulsa
Little Rock
Memphis
Oklahoma City
USPCI HQ
Wichita Falls
Denison
Shreveport
UP Resources HQ
Dallas
Fort Worth
Baton Rouge
New Orleans
Houston
Galveston
San Antonio
Austin
Laredo
Corpus Christi
Brownsville

People & Public Affairs

The Union Pacific Foundation has been a major supporter of the Tarrant County Association for the Blind, below, in Fort Worth, Texas, for several years. At right, restored land at the Bear Creek, Wyoming, uranium mine is a favorite feeding ground for mule deer.

Union Pacific Corporation holds a deep and continuing commitment to the well-being of its employees and the communities in which it does business. The corporation strives to provide employee compensation and benefits that are competitive within its industries; equal employment and affirmative action opportunities; and excellent training and development. Through its operating companies and the Union Pacific Foundation, the corporation provides a variety of aid to worthy organizations throughout its operating territory.

The Union Pacific Foundation

The Union Pacific Foundation made grants in 1987 totalling approximately $7 million to more than 800 private, nonprofit institutions of education, health, social welfare and the arts. Social welfare organizations received the largest share, including grants totalling about $1.4 million to 148 United Ways.

The Foundation favors programs that will either increase an institution's revenues or permanently reduce its operating costs. For example, in 1987 the Foundation made a grant to the Marylhurst College of Lifelong Learning in Marylhurst, Oregon, to help match a Department of Energy grant awarded to decentralize the college's boiler system and insulate older buildings. Resulting fuel savings should average 25 percent of current costs. A grant to the YMCA of St. Louis will enable it to enlarge its women's fitness center to accommodate an expected 500 percent increase in membership over the next three years.

Education Support

The corporation has three scholarship programs for college students. National Merit Scholars whose parents are employees or retirees received $38,237 in scholarships last year. In addition, the Railroad gave $47,000 in agricultural scholarships, as well as $79,250 in scholarships to the dependents of Railroad employees and retirees. The corporation matches employee gifts to secondary schools, colleges and universities on a two-to-one basis and employee contributions to nonprofit hospitals and arts organizations on a one-to-one basis. In 1987, the corporation gave $446,865 to educational institutions, and $77,118 to hospitals and arts organizations.

Community Relations

In 1987, Union Pacific Corporation continued a variety of environmental programs, including recontouring and reseeding areas that have been mined. In addition, the corporation maintained its active program of in-kind contributions of items such as railcars and cabooses to nonprofit organizations. The Railroad continued its leadership role in Operation Lifesaver, the award-winning program that increases public awareness of rail-crossing safety. Approximately 420,000 people attended Lifesaver classes.

Management Changes

Several important management changes were made in 1987. At the corporation, L. White Matthews III was elected senior vice president-finance. At the Railroad, Frederick B. Henderson was elected executive vice president-marketing and sales. At Union Pacific Technologies, James A. Shattuck was elected president and chief executive officer; L. Merill Bryan, Jr., executive vice president; and George J. Gagen, vice president-finance and strategic planning. At Union Pacific Realty, Edgar J. Gansz, Jr. was elected president.

Financial Review

Consolidated Results of Operations

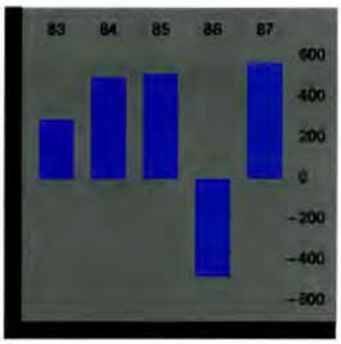
This review should be read with the financial statements, notes and the supplementary information.

1987 Compared to 1986

Consolidated net income for 1987 was $583 million ($5.10 per share) compared to a net loss of $460 million ($4.56 per share) in 1986. Excluding the effects of the $945 million after-tax restructuring charge in 1986 and the discontinued operation in 1987, the Corporation's earnings before special items rose 16% to $560 million ($4.90 per share) in 1987 from $485 million ($4.20 per share) in 1986. Strong performances in both the rail and energy businesses accounted for most of the earnings gain. Consolidated operating income increased 8% to $1.09 billion compared to last year's operating income before special charge, as Resources operating income rose $78 million, and consolidation of Overnite Transportation for the full year 1987 added $22 million to net income and $47 million to operating income compared to 1986. Railroad operating income declined $45 million.

Net Income

Millions of Dollars



Total sales and revenues were $5.94 billion in 1987, $640 million lower than the $6.58 billion reported in 1986. The decrease is due in part to the Corpus Christi refinery, which became a 50% owned joint venture in 1987 and, accordingly, is accounted for on the equity method. Last year that refinery had sales of $1.26 billion. Consolidation of Overnite added $544 million to 1987 revenues.

Excluding the special charge in 1986, operating expenses fell $724 million. Crude oil and other petroleum raw materials costs dropped by $1.02 billion, principally as a result of forming the Corpus Christi refinery joint venture. The increase in salaries, wages and employee benefits is attributable largely to the addition of Overnite. Depreciation expense was down, benefiting from the effects of last year's restructuring charge, while other costs increased by 10%.

Earnings before special items as a percent of revenue were 9.4% in 1987 compared to 7.4% in 1986. Return on average common stockholders' equity was 14.8% and 10.4% in 1987 and 1986, respectively.

The following comments on company performance are before the 1986 special charge. See the following page for 1986 operating income before and after the special charge.

Transportation – Union Pacific Railroad increased its earnings 14% to $440 million. While traffic volume increased, revenues of $3.90 billion were up 2%, because of a shift to lower-priced commodities and competitive price pressures. Revenue ton-miles rose 16% and carloadings were up 8%. The largest carloadings gains were in grain, up 26%; aggregates, up 18%; intermodal, 14%; food products, 11%; chemicals, 8%; and coal, 7%. Automotive and machinery carloadings were down 13% as automobile sales declined nationwide.

Railroad operating expenses increased $129 million to $3.17 billion and the operating ratio rose to 81.4% from 79.8% last year. Fuel and utilities costs were $27 million higher, principally as a result of a 13% rise in the price of diesel fuel to 54¢ per gallon. Personal injury charges also increased $95 million, reflecting a $55 million provision recorded in the fourth quarter. In addition, Federal income taxes decreased $95 million compared to last year, reflecting the combined effect of an unfavorable adjustment ($16 million) in 1986, lower pretax income and rates in 1987, and a favorable adjustment ($23 million) related primarily to prior year investment credits, which was recorded in the fourth quarter of 1987.

Overnite earned $43 million (before goodwill amortization of $19 million) on revenues of $544 million. Revenues increased 3% from 1986 as the price war that plagued the industry was partially offset by a tonnage increase of 6% to 7.9 billion pounds. Overnite's operating ratio was 86.9% in 1987 compared to 84.0% in 1986.

Natural Resources – Union Pacific Resources increased its earnings before special items 73% to $183 million and recorded a $23 million gain from discontinued operation as a result of the sale of the Corpus Christi petrochemical plant in 1987. Revenues were $1.42 billion in 1987, down by $1.28 billion principally because of the exclusion of Corpus Christi refinery sales. Operating income in the energy businesses improved substantially, while minerals operating income was essentially the same.

Exploration and production operating income advanced 17% to $158 million, as lower exploration expenses offset energy price and volume declines. Sales prices for crude oil recovered 26% from 1986 levels, plant products prices slipped 2% and natural gas prices were off 22%. Sales volumes of crude oil, plant products and natural gas decreased 12%, 4% and 7%, respectively.

Refining and marketing operating income rose 73% to $115 million, as Resources' joint venture with Petroleos de Venezuela stabilized earnings at the Corpus Christi facility. In addition, prices for refined products and improved operations at the West Coast refinery increased margins.

Minerals operating income of $50 million was essentially the same as the prior year. Soda ash income was higher because of improved export sales, but coal income was off.

Operating expenses were $1.14 billion in 1987, down $1.36 billion resulting primarily from formation of the Corpus Christi joint venture.

Land – Union Pacific Realty earned $31 million in 1987, a gain of 3%. The company completed several large real estate sales, principally in California.

1986 Compared to 1985

After giving effect to a $1.7 billion ($945 million after tax) restructuring charge in 1986, the Corporation incurred a net loss of $460 million ($4.56 per share) compared to net income of $501 million ($4.18 per share) in 1985. Earnings before the restructuring charge were $485 million or $4.20 per share in 1986.

The restructuring program addressed a number of events affecting the Corporation, including sharp drops in energy prices in the first half of 1986, the planned formation of the Corpus Christi refinery joint venture and continuing intense competition in the rail industry. The components of the special charge are described in Note 3 to the financial statements.

Operating income (loss) by business segment is summarized as follows:

(In Millions)	1986 After Special Charge	1986 Before Special Charge	1985
Transportation	$ 113	$ 773	$511
Natural resources	(759)	203	355
Land	31	31	35
Total	$(615)	$1,007	$901

To assist in evaluating the Corporation's performance, management believes that it also is important to evaluate 1986 results, before the effects of the special charge, in relation to 1985 results. Accordingly, the remaining comments on company performance are before special charges of $660 million for transportation operations and $962 million for natural resources operations. Railroad after-tax earnings rose $63 million or 20% to $385 million on the strength of continued cost reductions and productivity improvements, and higher traffic volume. Resource earnings were $106 million after tax, compared to $180 million in 1985.

Earnings as a percent of revenue were 7.4% in 1986 compared to 6.4% in 1985 and return on average common stockholders' equity was 10.4%, compared to 10.9%.

Transportation – Railroad revenues rose 1% to $3.8 billion in 1986. Revenue ton-miles and carloadings each advanced 4%; however, competitive market conditions caused a 3% drop in average revenue per ton-mile. The sharpest carloadings gains were in intermodal and consumer traffic, which increased 23% and 18%, respectively, while grain, forest products, food products and coal also rose. Auto and chemical carloadings were down 9% and 3%, respectively.

Operating expenses decreased $234 million or 7%. Fuel and utilities costs dropped $157 million as the average price per gallon of diesel fuel decreased. Salaries, wages and employee benefits were reduced $117 million, primarily as a result of reductions in force levels.

Natural Resources – Exploration and production revenues fell as an overall 2% increase in hydrocarbon sales was more than offset by lower prices for all products. Natural gas sales volumes were up 9% and plant products rose 2%, while crude oil slipped 5%. Crude oil, plant products and natural gas prices decreased 46%, 38% and 18%, respectively, from 1985 levels. Accordingly, operating results declined sharply and account for most of the decrease in Resources' after-tax earnings.

Manufacturing, marketing and petrochemicals earnings also declined. Early in 1986, selling prices for gasoline and other refined products dropped faster than the associated cost of crude oil. However, margins improved later in the year as prices stabilized. Revenues fell as sharp price drops more than offset a slight increase in refined product sales volumes.

Minerals earnings were $64 million, which included a $20 million net gain arising out of a court award related to the joint venture Carbon County coal mine, compared to $51 million last year. Coal and uranium income was lower, while industrial minerals income rose as a result of higher soda ash volumes.

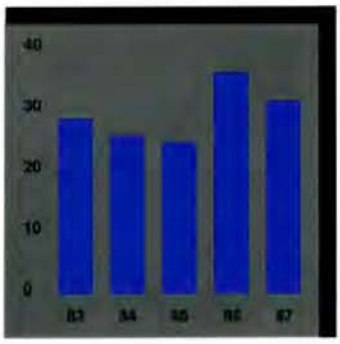
Land – Net earnings from land operations were $30 million, essentially unchanged from 1985.

Cash Flow and Liquidity

Total cash from operations was $1.12 billion, off 16% from the record $1.33 billion generated in 1986. Changes during 1987 in working capital had the effect of significantly reducing cash from operations, which was partially offset by Overnite's positive cash flow. Capital investments were $748 million in 1987, including $46 million by Overnite, compared to $738 million invested in 1986.

Debt/Capitalization

Percent



During 1987, the Corporation obtained permanent financing to replace $550 million of short-term borrowings incurred in connection with the acquisition of Overnite.

Total short- and long-term debt was reduced by $176 million to $2.88 billion at year-end 1987. The ratio of debt to total capital employed decreased 3.4 points during the year to 32.7%. Credit facilities with various banks totaled $1.125 billion at December 31, 1987, of which $259 million was used to support commercial paper outstanding at that date. In January 1988, in connection with the acquisition of shares of USPCI, the Corporation obtained $285 million of short-term funds under various other arrangements with lenders.

Other Matters

In recent years the rate of inflation has subsided from the historically high levels of the 1970's and early 1980's. However, the cumulative effect of long periods of inflation has significantly increased asset replacement costs for capital-intensive companies, especially long-lived assets such as those used in rail transportation operations. As a result, earnings on an inflation adjusted basis, assuming that all of the operating assets are replaced at the same time, would be substantially below historical reported results. Nonetheless, the Corporation's cash from operations, after eliminating the effects of inflation, has remained strong, its access to capital markets has not been impaired and it has been able to maintain its capital investment programs.

In December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes." This statement requires that deferred taxes be adjusted to reflect tax rates at which future tax liabilities are expected to be settled. Accordingly, the effects of rate changes will be recognized in net income as such changes are enacted. The Corporation does not expect to adopt the statement before the required implementation date in 1989. Initial adoption may be either through restatement of prior period financial statements, or a one-time cumulative adjustment. Because of the difficulty of restating all prior financial data for this change, the Corporation expects to record a cumulative adjustment in the year of adoption. That adjustment can not as yet be estimated. The effect on income tax expense for periods after implementation would most likely not be material so long as corporate statutory tax rates remain unchanged. This change in accounting will not affect the Corporation's cash flows or liquidity.

Auditors' Opinion

Union Pacific Corporation, its Directors and Stockholders:

We have examined the statements of consolidated financial position of Union Pacific Corporation and subsidiary companies as of December 31, 1987 and 1986 and the related statements of consolidated income, changes in common stockholders' equity, and consolidated cash flows for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Union Pacific Corporation and subsidiary companies at December 31, 1987 and 1986 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

New York, New York
January 21, 1988

Responsibilities for Financial Statements

The accompanying financial statements, which consolidate the accounts of Union Pacific Corporation and its subsidiaries, have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances.

The integrity and objectivity of data in these financial statements and accompanying notes, including estimates and judgments related to matters not concluded by year end, are the responsibility of management as is all other information in this Annual Report unless otherwise indicated. Management devotes ongoing attention to review and appraisal of its system of internal controls. This system is designed to provide reasonable assurance, at appropriate cost, that the Corporation's assets are protected and that transactions and events are recorded properly. The system is augmented by a staff of corporate traveling auditors supplemented by internal auditors in the subsidiary operating companies; careful attention to selection and development of qualified financial personnel; programs to further timely communication and monitoring of policies, standards and delegated authorities; and evaluation by independent public accountants during their examinations of the annual financial statements.

The Audit Committee of the Board of Directors, composed entirely of outside directors as identified on page 55, meets regularly with financial management, internal auditors and the independent public accountants to review the work of each. The independent public accountants have free access to the Audit Committee, without management representatives present, to discuss the results of their examination and their opinions on the adequacy of internal controls and the quality of financial reporting.

Drew Lewis

Chairman and Chief Executive Officer

L. White Matthews III

Senior Vice President-Finance

Business Segments

Union Pacific Corporation and Subsidiary Companies

	Millions of Dollars	1987	1986	1985
Operating Revenues	Transportation	$ 4,442	$ 3,816	$ 3,788
	Natural resources	1,421	2,700	3,950
	Land	80	67	66
	Total	$ 5,943	$ 6,583	$ 7,804
Operating Income	Transportation	$ 774	$ 113	$ 511
	Natural resources	281	(759)	355
	Land	36	31	35
	Total operating income (loss) (a)	1,091	(615)	901
	Other income	129	105	104
	Interest expense	(261)	(213)	(193)
	Corporate expenses	(72)	(82)	(63)
	Income (loss) before Federal income taxes	$ 887	$ (805)	$ 749
Assets (at Year End)	Transportation	$ 8,433	$ 6,988	$ 6,812
	Natural resources	1,960	2,218	3,370
	Land	216	189	163
	Corporate (b)	310	1,468	365
	Total	$10,919	$10,863	$10,710
Depreciation, Depletion and Amortization	Transportation	$ 269	$ 247	$ 240
	Natural resources	183	272	305
	Land	1	1	1
	Total	$ 453	$ 520	$ 546
Capital Expenditures	Transportation	$ 515	$ 494	$ 657
	Natural resources	173	173	301
	Land and other	12	7	7
	Total	$ 700	$ 674	$ 965

(a) See Note 3 to financial statements.

(b) Corporate assets include principally cash and temporary cash investments and, in 1986, the investment in Overnite.

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

Statement of Consolidated Income

	Union Pacific Corporation and Subsidiary Companies Millions of Dollars, Except Per Share Amounts	1987	1986	1985
Operating Revenues	Sales and Revenues	$5,943	$6,583	$7,804
Operating Expenses	Salaries, wages and employee benefits	2,096	1,782	1,929
	Crude oil and other petroleum raw materials	474	1,496	2,385
	Depreciation, depletion, amortization and retirements	453	520	546
	Fuel and utilities	396	420	655
	Materials and supplies	305	293	322
	State, local and other taxes	156	145	187
	Other costs	972	886	879
	Special charge (Note 3)	–	1,656	–
	Total	4,852	7,198	6,903
Income	Operating Income (Loss)	1,091	(615)	901
	Other Income	129	105	104
	Interest Expense (Note 9)	(261)	(213)	(193)
	Corporate Expenses	(72)	(82)	(63)
	Income (Loss) before Federal Income Taxes	887	(805)	749
	Federal Income (Taxes) Benefit (Note 7)	(327)	391	(248)
	Income (Loss) from Continuing Operations	560	(414)	501
	Income (Loss) from Discontinued Operation (Note 3)	23	(46)	–
	Net Income (Loss)	$ 583	$ (460)	$ 501
Per Share	Continuing Operations	$ 4.90	$(4.13)	$ 4.18
	Net Income (Loss)	5.10	(4.56)	4.18
	Common Dividends	2.00	1.85	1.80

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

Statement of Consolidated Financial Position

Union Pacific Corporation and Subsidiary Companies

	Millions of Dollars	1987	1986
Assets			
Current Assets	Cash and temporary investments (Note 5)	$ 165	$ 300
	Accounts receivable - net	716	633
	Inventories (Note 4)	231	344
	Other current assets	284	275
	Total	1,396	1,552
Investments	Investment in Overnite Transportation Company (Note 2)	–	1,210
	Investments in and advances to affiliated companies	268	215
	Land and other investments	196	202
	Total	464	1,627
Properties	Cost (Notes 6 and 8)	11,778	11,609
	Less accumulated depreciation, depletion and amortization	3,865	4,142
	Net	7,913	7,467
Other	Intangible and Other Assets - Net	1,146	217
	Total Assets	$10,919	$10,863
Liabilities and Stockholders' Equity			
Current Liabilities	Accounts payable	$ 296	$ 430
	Accrued wages and vacation	215	221
	Income and other taxes	104	117
	Dividends and interest	133	129
	Debt due within one year	138	143
	Other current liabilities	679	751
	Total	1,565	1,791
Other Liabilities and Equity	Debt Due After One Year (Note 8)	2,747	2,918
	Deferred Federal Income Taxes (Note 7)	1,815	1,632
	Other Liabilities	658	740
	Convertible Preferred Stock, at redemption value (Note 11)	373	374
	Common Stockholders' Equity (page 43)	3,761	3,408
	Total Liabilities and Stockholders' Equity	$10,919	$10,863

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

Statement of Consolidated Cash Flows

Union Pacific Corporation and Subsidiary Companies

	Millions of Dollars	1987	1986	1985
Cash from Operations	Income (loss) from continuing operations	$ 560	$ (414)	$ 501
	Non-cash charges to income			
	Depreciation, depletion and amortization	453	520	546
	Deferred Federal income taxes	239	(411)	225
	Special charge	–	1,656	–
	Working capital and other	(1)	205	73
	Cash used for special charge and by discontinued operation	(127)	(223)	(28)
	Total cash from operations	1,124	1,333	1,317
Investment Activities and Other	Capital investments and exploratory expenditures	(748)	(738)	(1,067)
	Investment in Overnite Transportation Company (Note 2)	48	(1,212)	–
	Other – net	(103)	103	88
	Net cash generated (used) in operations	321	(514)	338
Equity and Financing Activities	Dividends paid	(242)	(225)	(232)
	Debt repaid	(900)	(393)	(328)
	Purchase of treasury stock (Note 12)	(27)	(273)	(153)
	Financings	713	1,252	325
	Net Change in Cash and Temporary Investments	$ (135)	$ (153)	$ (50)
Other Working Capital Changes	Accounts receivable	$ 33	$ (125)	$ (109)
	Inventories	(121)	(77)	9
	Other current assets	(2)	140	9
	Accounts, wages and vacations payable	160	63	47
	Other current liabilities	109	(177)	93
	Total	$ 179	$ (176)	$ 49

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

Statement of Changes in Common Stockholders' Equity

Union Pacific Corporation and Subsidiary Companies Millions of Dollars		1987	1986	1985
Common Stock	Common Stock, $2.50 par value (authorized 300,000,000 shares)			
	Balance at beginning of year (115,500,705 shares issued in 1987; 115,189,422 in 1986; 114,940,097 in 1985)	$ 289	$ 288	$ 287
	Conversions, exercises of stock options and other (666,702 shares in 1987; 311,283 in 1986; 249,325 in 1985)	1	1	1
	Balance at end of year (116,167,407 shares issued in 1987; 115,500,705 in 1986; 115,189,422 in 1985)	290	289	288
Paid-in Surplus	Balance at beginning of year	770	756	749
	Conversions, exercises of stock options and other	41	14	7
	Balance at end of year	811	770	756
Retained Earnings	Balance at beginning of year	2,864	3,553	3,282
	Net income (loss)	583	(460)	501
	Total	3,447	3,093	3,783
	Dividends declared			
	Common stock	(211)	(198)	(199)
	Preferred stock	(31)	(31)	(31)
	Balance at end of year (Note 8)	3,205	2,864	3,553
Treasury Stock	Balance at end of year, at cost (11,082,460 shares in 1987; 10,528,983 in 1986; 5,376,017 in 1985)	(545)	(515)	(241)
	Total Common Stockholders' Equity (Note 12)	$3,761	$3,408	$4,356

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

Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts of Union Pacific Corporation (Corporation) and all subsidiaries. Investments in affiliated companies (20% to 50% owned) are accounted for on the equity method. All material intercompany transactions are eliminated.

Inventories
Materials and supplies are at average cost. Refined products and crude oil are at cost under the last-in, first-out method (LIFO). Real estate developed and held for sale is carried at the cost of land and improvements thereto. Inventories are at the lower of cost or market.

Natural Resources Accounting Policies
Oil and gas exploration costs are accounted for by the successful efforts method.

Drilling costs of unsuccessful exploratory wells, geological and geophysical costs and carrying costs are charged to expense when incurred. Costs of developing producing properties, including drilling costs and applicable leasehold acquisition costs, are capitalized.

Depletion and amortization of producing properties, including depreciation of well and support equipment and amortization of related lease costs, are recorded by a unit-of-production method based upon proved reserves. Acquisition costs of unproved properties are amortized from date of acquisition on a composite basis which considers past success experience and average lease life.

Mining leasehold and development costs are capitalized and subsequently amortized on a unit-of-production method when production commences. Carrying costs of mineral rights are expensed currently.

Depreciation
Provisions for depreciation are computed principally on the straight-line method based on estimated service lives of depreciable properties.

Intangible Assets
Intangible and other assets include $976 million of intangible assets, consisting principally of cost in excess of equity in net assets of Overnite Transportation Company (Overnite), which is being amortized over 40 years on a straight-line basis.

Investment Tax Credit
Benefits from the investment tax credit have been recorded currently in income.

Earnings (Loss) per Share
Earnings per share are based on the weighted average number of common shares outstanding during the periods, plus shares issuable upon conversion of convertible preferred stock and exercise of outstanding stock options. Loss per share is based solely on the weighted average number of common shares outstanding.

Change in Presentation
The Statement of Consolidated Income was revised in 1987 to present operating income. In addition, the natural resources segment in 1987 includes the former oil and gas and mining segments. Amounts for 1986 and 1985 have been reclassified to conform to the new presentation.

Notes to Financial Statements

1. Business
The Corporation consists of companies operating principally in the United States engaged in railroad and truck transportation of bulk commodities and manufactured goods; oil and gas exploration, development, production, refining and marketing; mining of coal and trona; and real estate.

In 1987, Champlin Petroleum Company changed its name to Union Pacific Resources Company (UPRC); Rocky Mountain Energy Company changed its name to Union Pacific Minerals, Inc. and became a subsidiary of UPRC.

The following financial information is an integral part of these financial statements:

Business Segments

Supplementary Information (unaudited)

Oil and Gas – Proved Reserves, Costs Incurred in Exploration and Development, Results of Operations for Producing Activities and Standardized Measure of Proved Reserves

2. Acquisitions
In October 1987, the Interstate Commerce Commission's (ICC) approval of the acquisition of Overnite became effective. The Corporation had purchased substantially all of Overnite's common stock in October 1986 for $1.2 billion. The acquisition has been accounted for as a purchase effective November 1, 1986. Overnite is fully consolidated in 1987; the equity method was used in 1986 because ICC approval was pending.

If Overnite had been acquired as of January 1, 1985, unaudited pro forma net income would have been $458 million or $3.82 per share in 1985 and a loss of $491 million or $4.85 per share in 1986, after giving effect to interest on indebtedness incurred and amortization of goodwill.

In June 1986, an agreement was reinstated under which Missouri Pacific Railroad Company will acquire the Missouri-Kansas-Texas Railroad Company for approximately $110 million, subject to certain adjustments and ICC approval. A merger application has been filed with the ICC, which has until April 1988 to render a decision.

In January 1988, the Corporation acquired for cash approximately 69% of the common stock of USPCI, Inc., a hazardous waste management company. A merger is to be consummated with USPCI no later than July 31, 1988. Total cost of the acquisition is approximately $420 million. The acquisition will be accounted for as a purchase. USPCI's revenues and net income for the year ended December 31, 1987 were $84 million and $7 million, respectively, and USPCI's total assets and total liabilities at that date were $121 million and $35 million, respectively.

3. Special Charge and Discontinued Operation
In the second quarter of 1986, the Corporation announced a major restructuring program, which included a special charge of $1.7 billion ($945 million after tax). The program addressed a number of events affecting the Corporation, including sharp drops in energy prices in 1986, the planned sale of the Corpus Christi refinery, and continuing intense competition in the rail industry.

The principal components of the special charge included a $600 million reserve to cover corporate-wide workforce reductions and consolidation of excess facilities; a $577 million writedown of some high-cost, developed and nonproducing oil and gas properties, principally in Alaska and offshore California; a $480 million writedown of other assets, including $305 million related to the Corpus Christi refinery, and writedowns of excess rail equipment; and an $86 million additional loss from discontinued operation related to UPRC's 37½% interest in Corpus Christi Petrochemical Company (CCPC).

Effective January 1, 1987, Champlin Refining Company, a 50%/50% joint-venture partnership formed by UPRC and Petroleos de Venezuela, S.A., acquired the Corpus Christi refinery and distribution system along with its inventories, and also subleased the petroleum processing facility at Corpus Christi.

In July 1987, CCPC sold its assets to Cain Chemical, Inc. for cash and repaid its debt obligations. As a result, UPRC recorded $57 million income from discontinued operation ($23 million after tax).

4. Inventories

Inventories consist of the following:

Millions of Dollars	1987	1986
Materials and supplies	$144	$151
Crude oil and refined products	39	150
Real estate developed and held for sale	48	43
	$231	$344

The excess of current replacement cost over the carrying value of inventories for which cost has been determined under the LIFO method at December 31, 1987 approximated $9 million. At December 31, 1986, there was no such excess.

5. Cash and Temporary Investments

Cash and temporary investments consist of the following:

Millions of Dollars	1987	1986
Cash	$ 79	$100
Temporary cash investments	86	200
	$165	$300

Temporary cash investments are at cost which approximates market.

6. Properties

Major property accounts are as follows:

Millions of Dollars	1987	1986
Transportation		
Road	$ 5,242	$ 4,778
Equipment	3,115	2,915
Other	46	28
	8,403	7,721
Natural resources		
Exploration and production	2,541	2,543
Refining and other	727	1,228
	3,268	3,771
Other	107	117
	$11,778	$11,609

Accumulated depreciation, depletion and amortization are as follows:

Millions of Dollars	1987	1986
Transportation		
Road	$ 1,133	$ 1,133
Equipment	867	723
Other	13	7
	2,013	1,863
Natural resources		
Exploration and production	1,608	1,598
Refining and other	223	660
	1,831	2,258
Other	21	21
	$ 3,865	$ 4,142

7. Federal Income Taxes

Components of Federal income tax expense are as follows:

Millions of Dollars	1987	1986	1985
Current	$ 88	$ 20	$ 23
Deferred	239	(411)	225
	$327	$(391)	$248

The tax effect of differences in the timing of revenues and expenses for tax and financial statement purposes is as follows:

Millions of Dollars	1987	1986	1985
Excess of tax over book depreciation	$172	$ 201	$302
Special charge	41	(660)	–
Investment credits	4	30	(62)
Surrendered leases	13	31	(7)
Other	9	(13)	(8)
	$239	$(411)	$225

A reconciliation between statutory and effective tax rates follows:

	1987	1986	1985
Statutory tax rate	40.0%	(46.0)%	46.0%
Investment credits	(3.1)	(1.7)	(8.1)
Capital gains	–	–	(1.8)
Settlement of disputed issues	–	–	(3.6)
Other	(0.1)	(0.9)	0.6
Effective tax rate	36.8%	(48.6)%	33.1%

The Corporation contested deficiencies in the Tax Court for 1968 through 1971. A tentative agreement in 1982 to settle that suit also provided for favorable recognition of the Corporation's major claim for 1943 through 1967. Final agreement for those years, which required that a portion of such claim be reserved for future refund litigation by the Corporation, received approval by the Congressional Joint Committee on Taxation in 1984 and in 1985 the IRS refunded $59 million under that agreement.

In 1986, the Corporation reached a partial settlement with the Appeals Office of the IRS concerning 1972. The Corporation is also contesting deficiencies in the Tax Court for 1973 through 1979. In 1986, the Corporation began negotiations with the Appeals Office of the IRS concerning 1980 and 1981. The IRS is examining the Corporation's returns for 1982 and 1983.

See Financial Review for comments relating to the new income tax accounting standard.

8. Debt

Long-term debt is summarized below:

Millions of Dollars	1987	1986
Notes and Debentures, 4.75% to 11.88% due through 2054	$1,451	$ 926
Equipment obligations, 6.5% to 15.5% due through 2002	699	809
Borrowings from banks, average of 6.09%	–	700
Commercial paper, average of 7.33% in 1987 and 7.31% in 1986	259	125
Mortgage bonds, 2.5% to 11.5% due through 2030	295	310
Tax-exempt financings, 4.75% to 11% due through 2022	118	119
Capitalized leases	20	27
Unamortized discount	(95)	(98)
	$2,747	$2,918

Maturities of long-term debt for each of the five years 1988 through 1992 are $138 million, $132 million, $178 million, $223 million and $355 million, respectively.

Substantially all the railway equipment and many of the other railroad properties secure the outstanding equipment obligations and mortgage bonds.

Notes and debentures outstanding at December 31, 1987 include $150 million of 6% Notes due 1992 with a face amount of $200 million and a yield to maturity of approximately 14%. Certain tax-exempt financings bear interest at rates which vary based upon indices of tax-exempt securities; interest rates ranged from 4.75% to 6.88% at December 31, 1987 and from 4.2% to 4.98% at December 31, 1986.

The Corporation has $1.125 billion of credit facilities for general corporate purposes, including the support of commercial paper borrowing arrangements. These facilities are comprised of a $1.0 billion long-term revolving credit facility which expires on June 30, 1992, a $75 million revolving credit facility which expires April 27, 1989 and $50 million of short-term lines of credit with various banks. Commitment fees and interest rates payable under these facilities are comparable to fees and rates available to the most credit-worthy corporate borrowers.

The borrowings from banks and commercial paper are due within one year, but have been classified as long-term debt because the Corporation intends to refinance these obligations by the issuance of additional commercial paper or other long-term debt. Commitments under the long-term agreements are available to cover any debt due within one year that is classified as long-term.

The Corporation is subject to certain restrictions relating to the payment of cash dividends. The amount of retained earnings available for cash dividends under the most restrictive test was $508 million at December 31, 1987.

9. Interest Capitalized

The Corporation and its subsidiaries capitalized approximately $9 million in 1987, $18 million in 1986 and $33 million in 1985 of interest cost incurred for capital expenditure projects. Interest expense has been reduced by the amount capitalized.

10. Pension Plans

The Corporation and its subsidiaries have defined benefit pension plans covering substantially all salaried employees. Plan benefits are generally based on years of service and compensation during the last years of employment. Except for certain unfunded supplemental plans, the Corporation has generally followed a policy of funding the amount of pension cost accrued. However, in certain years amounts contributed may be more or less than the pension cost accrued because of ERISA funding standards and limitations imposed by tax regulations.

In 1987, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 87 on accounting for pension costs for all of its plans. The net income impact of adopting this statement was not material. Charges to operations for the plans amounted to $29 million in 1987, $22 million in 1986 and $42 million in 1985. The increase in 1987 over 1986 results primarily from the consolidation of Overnite and the effect of plan amendments adopted at the end of 1986, offset partially by settlement/curtailment gains in connection with the sales of certain refinery and petrochemical operations. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was changed in 1986 from 7.5% to 8.0%. This change, together with reduced employee levels, caused a lower charge to operations in 1986 compared to 1985. The charge to operations for 1987 included the following components:

Millions of Dollars	1987
Service cost – benefits earned during the period	$ 27
Interest on projected benefit obligation	65
Expected return on assets	(59)
Amortization of net transition obligation	4
Net periodic pension cost	37
Settlement/curtailment gains	(8)
Charge to operations	$ 29

The projected benefit obligation was determined using a discount rate of 8.0% and an estimated rate of salary increase approximating 6.25%. The expected long-term rate of return on plan assets was 8.0%. The expected return on assets exceeded the actual return by $4 million. As of year-end 1987, approximately 50% of the assets of the funded plans were held in fixed income and short term securities and the remainder primarily in equity securities.

The funded status of the plans at December 31, 1987 was as follows:

Millions of Dollars	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets (a)
Plan assets at fair value	$782	$ –
Actuarial present value of benefit obligations:		
Vested benefits	521	69
Non-vested benefits	63	4
Accumulated benefit obligation	584	73
Additional benefits based on estimated future salaries	208	7
Projected benefit obligation	792	80
Plan assets under projected benefit obligation	10	80
Unamortized net transition asset or (obligation)	49	(74)
Unrecognized net loss from difference in expected and actual investment experience	(4)	–
Pension liabilities	$ 55	$ 6

(a) Represents the Corporation's unfunded supplemental plans.

At December 31, 1986, the actuarial present value of accumulated plan benefits for the funded plans totaled $462 million, of which $429 million were vested. Plan net assets available for benefits were $614 million at that date. The actuarial present value of accumulated plan benefits for the unfunded plans (virtually all of which were vested) at December 31, 1986 approximated $74 million.

11. Redeemable Preferred Stock

The $7.25 Convertible Preferred Stock, Series A is stated at its mandatory redemption value of $86.50 per share, has one vote per share, pays an annual cumulative dividend of $7.25 per share, and is convertible into two shares of common stock. Changes in redeemable preferred stock are as follows:

	1987	1986	1985
Balance at Jan. 1	4,323,706	4,325,381	4,326,532
Converted	(7,448)	(1,675)	(1,151)
Balance at Dec. 31	4,316,258	4,323,706	4,325,381

The shares are entitled to receive, upon liquidation of the Corporation, $86.50 per share plus accrued dividends and are subject to annual sinking fund requirements commencing in 1994 in an amount sufficient to redeem 5% of the shares originally issued at a price of $86.50 a share plus accrued dividends. The sinking fund requirements may also be satisfied with shares acquired in the open market or by conversion. In January 1988, the Corporation called this preferred stock for redemption on March 1, 1988, at a redemption price of $89.00 per share.

The shares constitute a designated series of the 20,000,000 shares of Preferred Stock authorized without par value.

12. Stock Option Plans and Other Capital Stock

Pursuant to the Corporation's stock option and restricted stock plans for officers and key employees, 818,550; 1,588,700, and 2,129,750 common shares were available for grant at December 31, 1987, 1986 and 1985, respectively. Options outstanding under the plans are granted at 100% of market value at the date of grant, become exercisable one year after that date and are exercisable for a period of 10 years from the grant date. The plans provide for incentive stock options which are subject to these same general terms and conditions as well as certain additional limitations. Changes in common stock options outstanding are as follows:

	Shares Under Option	Price Range Per Share
Balance Dec. 31, 1984	2,698,950	$15.99 to $83.63
Granted	493,300	46.13 to 49.94
Exercised	(171,650)	15.99 to 48.82
Expired/Surrendered	(141,850)	22.28 to 68.19
Balance Dec. 31, 1985	2,878,750	19.91 to 83.63
Granted	588,100	49.75 to 59.94
Exercised	(244,800)	19.91 to 57.75
Expired/Surrendered	(88,250)	22.97 to 68.19
Balance Dec. 31, 1986	3,133,800	22.97 to 83.63
Granted	766,600	49.75 to 80.82
Exercised	(984,800)	22.97 to 68.19
Expired/Surrendered	(16,050)	40.82 to 80.82
Balance Dec. 31, 1987	2,899,550	23.91 to 83.63
Exercisable Dec. 31		
1985	2,385,450	19.91 to 83.63
1986	2,545,700	22.97 to 83.63
1987	2,156,750	23.91 to 83.63

The plans also provide for granting of stock appreciation rights which permit certain holders to surrender related exercisable options in exchange for cash or stock in an amount equal to the excess of the market price of the Corporation's common stock on the date the right is exercised over the option price. As a result of changes in the market value of the stock, $6 million, $8 million and $10 million was charged to expense in 1987, 1986 and 1985. During 1987, 1986 and 1985, options with stock appreciation rights were granted for 232,200; 224,200, and 182,400, respectively. At December 31, 1987, 1986 and 1985, there were 923,200; 1,290,800, and 1,088,400 shares subject to outstanding stock appreciation rights, respectively.

The Corporation's restricted stock plan provides for granting in the aggregate up to 200,000 shares of common stock to eligible employees, subject to forfeiture if employment terminates prior to the prescribed restricted period. During 1987, 1986 and 1985, 19,600; 31,400 and 24,100 restricted shares, respectively, were issued. At December 31, 1987, 82,500 shares were available for grant.

Of the unissued common stock, 12,797,568 shares at December 31, 1987 were reserved for issuance upon conversion of the convertible securities, exercise of stock options and restricted stock grants.

The Corporation has announced programs to purchase up to $1.2 billion of its common shares from time to time as circumstances warrant. Through December 31, 1987, a total of 10.9 million shares had been purchased at a cost of $533 million.

13. Contingent Liabilities

Certain former shareholders of The Western Pacific Railroad Company (WP) have filed purported class actions in the U.S. District Courts for the Southern District of New York and for the Northern District of California against the Corporation, WP and certain directors of WP alleging violations of the Federal securities laws in connection with the Corporation's 1980 tender offer for shares of WP and the failure of the defendants to fulfill certain fiduciary obligations. The suits seek money damages in an unspecified amount. One of the cases filed in New York has been dismissed. The Ninth Circuit Court of Appeals reversed the California District Court's dismissal of two of plaintiffs claims and remanded the case to the District Court for further proceedings. The remaining case in New York has been stayed pending resolution of the California case. Independent counsel have advised that, in their opinion, there are meritorious defenses to these claims.

Pursuant to settlement agreements reached with Energy Transportation Systems, Inc. (ETSI) and Arkansas Power & Light Company (AP&L), the antitrust treble damage suits brought by ETSI and AP&L against the Corporation and its railroad subsidiaries were recently dismissed with prejudice. There remain two suits brought by Houston Lighting & Power Company (HL&P) against the Corporation, its rail subsidiaries, four other western rail carriers and two other railroad holding companies. The suits allege antitrust and other violations of law and claim that the railroads entered into a conspiracy to destroy or exclude potential competition from a proposed coal slurry pipeline that ETSI proposed to build to provide coal to various coal fired utility plants in the south and southwest, including plants owned by HL&P. HL&P alleges injury in the approximate amount of $1.4 billion and seeks treble damages. The Corporation and its subsidiaries have answered the complaint by denying all allegations of wrongdoing and asserting legal and equitable defenses, including constitutional defenses with regard to allegations that focus on legislative and litigative conduct and statute of limitations defenses with regard to alleged railroad conduct prior to July 1982. Trial is expected to begin next year.

In December 1987, the Lower Colorado River Authority and the City of Austin, Texas, filed suit against the HL&P defendants as well as Missouri-Kansas-Texas Railroad Company and its parent company alleging antitrust and other violations of law in substance identical to those made in the HL&P suit. The complaint alleges injuries of "hundreds of millions of dollars" and seeks damages in an unspecified amount. The Corporation and its subsidiaries will soon answer the complaint by denying all allegations of wrongdoing, and asserting various legal and equitable defenses including, but not limited to, defenses similar to those raised in the HL&P suit.

There are other lawsuits pending against the Corporation and certain of its subsidiaries not described herein. It is the opinion of management, after consulting with legal counsel, that such litigation will not have a material adverse effect on the consolidated financial position of the Corporation.

Selected Quarterly Data

Selected unaudited quarterly data (millions of dollars, except per share amounts) for 1987 and 1986 are as follows:

1987	Mar 31	Jun 30	Sep 30	Dec 31
Operating revenues	$1,427	$1,475	$1,513	$1,528
Income from continuing operations	122	143	155	140
Net income	122	143	178	140
Per share:				
Continuing operations	1.07	1.25	1.35	1.23
Net income	1.07	1.25	1.55	1.23
Common dividends	.50	.50	.50	.50
Common stock price:				
High	80.50	79.75	86.63	80.88
Low	62.00	67.25	73.75	45.13
Preferred stock price:				
High	162.50	163.00	175.50	162.50
Low	130.50	138.50	150.00	92.00
1986				
Operating revenues	$1,822	$1,578	$1,567	$1,616
Income (loss) from continuing operations	103	(789)	142	130
Net income (loss)	103	(835)	142	130
Per share:				
Continuing operations	.88	(7.38)	1.24	1.13
Net income	.88	(7.81)	1.24	1.13
Common dividends	.45	.45	.45	.50
Common stock price:				
High	55.88	57.38	62.25	67.38
Low	46.50	49.88	50.63	56.25
Preferred stock price:				
High	121.25	123.50	131.50	139.50
Low	104.50	111.50	112.75	121.75

Taxes other than Federal income taxes are as follows:

Millions of Dollars	1987	1986	1985
Payroll	$364	$321	$326
Property	82	92	99
Production	21	19	42
Windfall Profit	–	–	16
Federal and state motor	41	57	43
Other	82	50	55
	$590	$539	$581

Stockholders and Dividends

The common stock and convertible preferred stock of the Corporation are traded on various stock exchanges, principally the New York Stock Exchange. At January 29, 1988, there were 105,093,225 shares of common stock outstanding and approximately 68,040 common stockholders, and there were 4,313,548 shares of convertible preferred stock outstanding and approximately 14,090 preferred stockholders. At that date the closing price of the common stock and the convertible preferred stock on the NYSE was $54.75 and $108.75, respectively.

Common stock dividends declared by the Corporation were $2.00 per share in 1987 and $1.85 per share in 1986. Union Pacific has paid dividends to its common stockholders during each of the past 88 years. See Note 8 for discussion regarding restrictions relating to the payment of cash dividends.

Rail Transportation

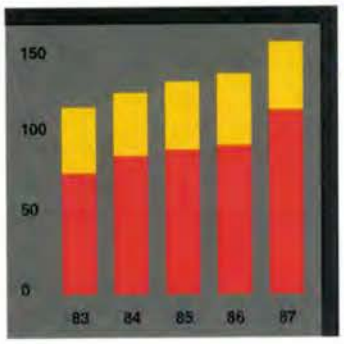
Commodities

Revenue ton-miles (RTM) and freight revenue for major commodities are as follows:

Percent of Total	1987 RTM	1987 Freight Revenue	1986 RTM	1986 Freight Revenue	1985 RTM	1985 Freight Revenue
Aggregates	3.9	4.5	3.6	4.1	4.6	4.7
Automotive and machinery	3.5	10.9	4.6	12.9	4.6	14.1
Chemicals	16.2	22.5	17.5	22.3	18.0	21.7
Consumer and government	2.0	3.4	2.2	3.4	1.9	3.5
Energy	28.0	16.8	29.1	17.3	28.2	16.6
Food and food products	6.6	7.5	6.7	7.1	6.8	6.9
Forest products	8.6	9.0	8.6	8.5	7.9	8.2
Grains and grain products	18.6	11.2	14.6	9.8	14.7	9.7
Intermodal	7.7	9.7	8.6	10.1	7.4	9.4
Metals and ores	4.9	4.5	4.5	4.5	5.9	5.2
	100%	100%	100%	100%	100%	100%
Amounts in billions	**157.2**	**$3.8**	**136.1**	**$3.7**	**130.8**	**$3.7**

Equipment

Owned or leased at year end	1987	1986	1985
Locomotives	2,631	2,705	2,706
Freight cars			
Box cars	21,324	22,599	28,016
Covered hoppers	23,565	24,347	25,702
Open-top hoppers	11,037	11,590	15,280
Gondolas	10,826	11,084	11,965
Other	10,263	10,480	13,686
Work equipment	6,151	6,751	8,369
Acquired or constructed during the year			
Road locomotives	109	60	60
Freight cars	477	110	273
Average age of equipment (years)			
Locomotives	10.1	9.5	8.8
Freight cars	14.8	14.1	13.6
Bad order ratio-freight cars	10.0%	7.1%	8.1%



Other Commodities

Bulk Commodities

Revenue Ton-Miles

Billions

Expenditures

Millions of Dollars	1987	1986	1985
Capital Expenditures			
Roadway and other	$405	$399	$533
Equipment	64	95	124
Total	$469	$494	$657
Maintenance Expenditures			
Roadway	$300	$308	$360
Equipment	359	340	370
Total	$659	$648	$730

Transportation Statistics

Railroad (track miles)	1987	1986	1985
Main line	13,804	13,858	13,906
Branch line	7,129	7,592	7,430
Yards, siding and other main line	12,636	13,195	13,275
Total	33,569	34,645	34,611
Track miles of continuous-welded rail (at year end)	12,233	11,747	11,406
Track miles under centralized-traffic-control (at year end)	8,531	8,476	8,476
Track miles of rail replaced			
New	379	458	610
Used	316	176	505
Track miles reballasted	3,416	4,218	6,058
Ties replaced (thousands)	1,936	1,815	2,225
Freight Operations			
Operating ratio	81.4	79.8	86.6
Carloadings (thousands)	3,539	3,286	3,168
Average revenue per carloading	$1,067	$1,124	$1,157
Average price of diesel fuel (per gallon)	53.7¢	47.4¢	77.6¢

Trucking

The Corporation's financial statements include the results of Overnite from November 1, 1986. The following information for Overnite is presented for comparative statistical purposes only.

Freight Operations

	1987	1986	1985
Shipments (thousands)			
Less than truckload	5,758	5,565	4,811
Truckload	76	69	78
Total	5,834	5,634	4,889
Tonnage (thousands of tons)			
Less than truckload	2,825	2,683	2,284
Truckload	1,120	1,042	1,176
Total	3,945	3,725	3,460
Operating revenues (millions)	$ 544	$ 530	$ 470
Revenue per hundredweight	$6.88	$7.11	$6.80
Operating ratio (a)	86.9	84.0	84.8

(a) Excludes goodwill amortization.

Equipment and Terminals

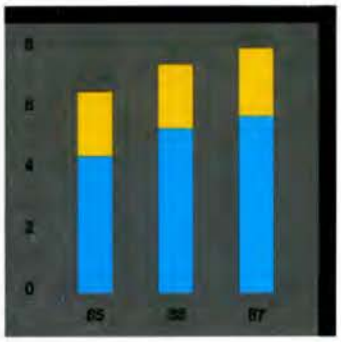
Owned or leased at year end	1987	1986	1985
Tractors	4,236	4,016	3,686
Trailers	10,544	9,532	8,690
Straight trucks	156	163	167
Automobiles and service units	580	520	471
Terminals	128	117	108
Average age of equipment (years)			
Tractors	8.0	7.5	7.0
Trailers	8.4	8.3	8.3

Capital Expenditures

Millions of Dollars	1987	1986	1985
Revenue equipment	$28	$28	$25
Other	18	30	20
Total	$46	$58	$45

Pounds Hauled

Billions



Truckload

LTL

Natural Resources

Oil and Gas - Proved Reserves

Proved reserves of crude oil, which include condensate and natural gas liquids, are as follows:

Millions of Barrels	1987	1986	1985
Beginning of year	165.2	188.3	179.1
Revisions of previous estimates	(6.0)	1.9	13.6
Improved recovery	3.7	0.7	7.7
Extensions, discoveries and other additions	6.5	4.1	10.0
Purchases (sales) of reserves-in-place	(2.5)	(3.8)	2.7
Production	(22.3)	(26.0)	(24.8)
End of year	144.6	165.2	188.3
Proved developed reserves	129.9	130.6	153.2

The above table includes the following amounts with respect to natural gas liquids:

Millions of Barrels	1987	1986	1985
Production	(7.3)	(8.4)	(7.8)
Reserves, end of year	59.4	70.2	74.8

Proved natural gas reserves are as follows:

Billions of Cubic Feet	1987	1986	1985
Beginning of year	1,678.5	1,847.2	1,896.4
Revisions of previous estimates	(113.4)	(78.7)	(15.5)
Improved recovery	0.1	0.3	1.2
Extensions, discoveries and other additions	43.6	32.5	72.1
Purchases (sales) of reserves-in-place	(9.8)	(0.1)	8.2
Production	(124.9)	(122.7)	(115.2)
End of year	1,474.1	1,678.5	1,847.2
Proved developed reserves	1,257.5	1,452.5	1,616.3

More than 90% of all reserves are in the United States. Proved reserves include developed and undeveloped reserves. Proved developed reserves of oil and gas were 139.1 million barrels and 1,584.6 billion cubic feet at December 31, 1984, respectively.

Drilling, Production and Refining Activities

Drilling	1987	1986	1985
Gross wells	152	210	523
Gross productive wells	103	156	417
Net wells			
Exploration	11	24	60
Development	77	79	166
Net productive wells			
Exploration	3	6	21
Development	60	67	133

At December 31, 1987, 123 gross wells and 86 net wells were in process of being drilled.

Sales Price and Cost (a)	1987	1986	1985
Crude oil sales price	$16.72	$13.23	$24.72
Natural gas liquids sales price	9.11	9.32	14.93
Gas sales price	1.71	2.20	2.67
Lifting cost (b)	4.79	5.01	7.86

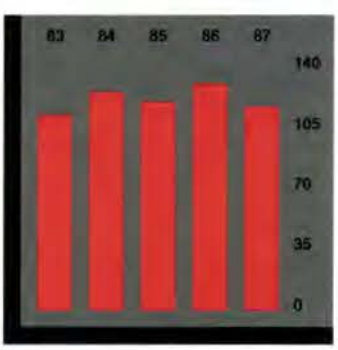
(a) Average per bbl or mcf.
(b) Lifting cost per unit excludes property acquisition, exploration and development cost.

Production (per day)	1987	1986	1985
Net crude oil (thousand bbl)	41.1	48.2	46.4
Net natural gas liquids (thousand bbl)	20.0	23.0	21.5
Net natural gas (mmcf)	342.0	336.1	315.6
Natural gas processed (mmcf)	680.6	655.1	716.1
Refining (thousand bbl per day)			
Refinery runs	65.0	174.7	186.2
Petroleum product sales (a)	100.0	279.4	259.9

(a) Excludes amounts processed and returned to others.

Capital Expenditures

Millions of Dollars	1987	1986	1985
Exploration and production	$144	$135	$264
Refineries	14	26	24
Other	15	12	13
Total	$173	$173	$301



Total Hydrocarbon Production

Thousands of Equivalent Barrels/Day

Acreage and Wells

Oil and gas acreage at December 31 is as follows:

Thousands of Acres	1987	1986
Gross developed	1,308	1,364
Net developed	661	685
Gross undeveloped	14,475	5,889
Net undeveloped	4,554	3,037

Gross and net undeveloped acreage at December 31, 1987 includes 9.2 million acres and 2.0 million acres, respectively, which were acquired in the Far East under a work program. The table excludes 6.3 million gross acres and 6.1 million net acres, respectively, which were acquired through 19th century Congressional Land Grant Acts. Substantial portions of this acreage are considered prospective for oil and gas.

Productive oil and gas wells at December 31, 1987 are as follows:

Wells	Oil	Gas
Gross (a)	4,974	1,730
Net	1,441	884

(a) Approximately 772 are multiple completions, 400 of which are gas wells.

Costs Incurred in Exploration and Development

Costs incurred in oil and gas property acquisition, exploration and development activities and capitalized costs of unproved properties are as follows:

Millions of Dollars	1987	1986	1985
Costs incurred (a)			
Proved acreage	$ 6	$ 1	$ 2
Unproved acreage	49	6	52
Exploration costs	74	78	130
Development costs	87	126	200
Unproved leaseholds (at year end)	$242	$240	$345

(a) Costs incurred include costs capitalized.

Results of Operations for Producing Activities

Millions of Dollars	1987	1986	1985
Revenues			
Third parties	$366	$474	$665
Affiliates	206	148	261
	572	622	926
Production costs	207	233	345
Exploration expenses	72	75	118
Depreciation, depletion and amortization	141	185	201
	420	493	664
Pre-tax results	152	129	262
Income taxes	59	54	118
Results of operations	$ 93	$ 75	$144

Pipeline results, overhead expenses and interest costs have not been included in computing these results of operations.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

Millions of Dollars	1987	1986	1985
Future cash inflows from sale of oil and gas	$4,157	$4,677	$8,249
Future production and development costs	(1,183)	(1,456)	(2,110)
Future income taxes	(890)	(989)	(2,632)
Future net cash flows	2,084	2,232	3,507
10% annual discount	(858)	(1,051)	(1,576)
Standardized measure of discounted future net cash flows	$1,226	$1,181	$1,931

An analysis of changes in standardized measure of discounted future net cash flows follows:

Millions of Dollars	1987	1986	1985
Beginning of year	$1,181	$1,931	$2,103
Changes due to current year operations:			
Additions and discoveries less related production and other costs	97	52	294
Sales of oil and gas, net of production cost	(365)	(389)	(580)
Development costs	87	126	200
Purchases (sales) of reserves-in-place	(18)	(16)	24
Changes due to revisions in:			
Price, production and development costs	44	(1,461) (a)	(635)
Quantity estimates	(79)	(76)	144
Income taxes	(12)	857	160
Other	130	(165)	(134)
Decrease in discount	161	322	355
End of year	$1,226	$1,181	$1,931

(a) Primarily the result of sharp drops in hydrocarbon prices during the year.

The standardized measure of discounted future net cash flows relating to proved oil and gas reserves is a computation which must be used with caution. This measurement is highly dependent upon subjective forecasts of future annual production over the entire life of the oil and gas reserves and is not an estimate of fair market value since it does not give any consideration to the varying effects of inflation, risks which differ between domestic and foreign reserves or to probable reserves and unproved acreage. Furthermore, this measure is not management's estimate of future profitability or future cash flow because it is based on standardized price, cost and discount assumptions. All of the data can fluctuate significantly as a result of changes in selling prices, changes in production costs or substantial revisions of reserve estimates and projections of future production because of effects on the economic life of fields.

The data shown represent the aggregate future revenues (at year-end selling prices) to be obtained from estimated annual production over the life of the reserves, less estimated future development and production costs (based on year-end costs). These future net revenues are discounted to present value at 10%, a uniform rate set by the Financial Accounting Standards Board. For purposes of this disclosure new reserves are valued at year-end selling prices; changes in price result from applying year-end selling prices to estimated reserve quantities at the beginning of the year; and the decrease in discount is 10% of the aggregate reserve value at the beginning of the year. Revisions for changes in selling prices and production costs are inherent to the prescribed methodology since only year-end amounts are used to forecast the future. Costs incurred include those for which a determination has been made as to whether or not the related properties contain proved reserves. Income taxes represent the tax effect (at statutory rates) of the difference between the standardized measure values and tax bases of the underlying properties at the end of the year.

Mineral Production

	1987	1986	1985
Quantities mined(a)			
Coal			
Wholly-owned properties	1.6	1.2	.5
Interest in joint ventures	2.2	3.2	3.4
Leased properties(b)	5.5	4.9	7.7
Trona			
Interest in joint ventures	1.4	1.3	1.2
Leased properties(b)	5.0	4.8	5.6
Uranium Oxide			
Interest in joint ventures	(d)	(d)	734
Minerals produced(a)			
Soda Ash(c)			
Interest in joint ventures	.8	.7	.7
Leased properties(b)	2.7	2.7	3.1
Uranium Oxide			
Interest in joint ventures	(d)	(d)	705

(a) Coal, trona and soda ash in millions of tons; uranium oxide in thousands of pounds.
(b) Represents production from reserves leased to others.
(c) Soda ash is produced from trona.
(d) Uranium mining operations were terminated in 1985.

Ten-Year Financial Summary

Union Pacific Corporation and Subsidiary Companies

Millions of Dollars, Except Per Share Amounts

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Operating Revenues	$ 5,943	$ 6,583	$ 7,804	$ 7,795	$ 8,370	$ 5,830	$6,395	$4,855	$4,000	$2,971
Operating Income	1,091	(615)	901	900	820	534	771	728	686	502
Income (Loss) from Continuing Operations	560	(414)	501	494	441	357	453	432	408	279
Net Income (Loss)	583	(460) (a)	501	494	297	332	429	423	408	279
Per Share										
Continuing Operations	4.90	(4.13)	4.18	4.01	3.57	3.70	4.71	4.51	4.27	2.93
Net Income (Loss)	5.10	(4.56) (a)	4.18	4.01	2.40	3.44	4.46	4.42	4.27	2.93
Common Dividends	$ 2.00	$ 1.85	$ 1.80	$ 1.80	$ 1.80	$ 1.80	$ 1.65	$ 1.45	$ 1.21	$ 1.04
At Year End(b)										
Total Assets	$10,919	$10,863	$10,710	$10,392	$10,218	$10,278	$7,366	$6,430	$5,288	$4,592
Debt Due After One Year	2,747	2,918	1,951	1,889	2,186	2,644	1,701	1,325	873	843
$7.25 Convertible Preferred Stock	373	374	374	374	374	374	–	–	–	–
Common Stockholders' Equity	3,761	3,408	4,356	4,231	4,056	3,982	3,185	2,901	2,609	2,312
Per Common Share	$ 35.79	$ 32.46	$ 39.67	$ 37.52	$ 35.35	$ 34.83	$33.06	$30.23	$27.31	$24.29
For the Year										
Capital Investments(c)	$ 748	$ 738	$ 1,067	$ 1,017	$ 875	$ 1,038	$1,120	$1,286	$ 990	$ 644
Cash from Operations	1,124	1,333	1,317	1,220	1,196	1,249	1,037	837	922	746
Total Salaries, Wages and Employee Benefits(b)	$ 2,284	$ 1,978	$ 2,188	$ 2,216	$ 2,070	$ 1,130	$1,126	$1,067	$ 969	$ 817
Average Number of Employees(b)	46,559	39,476	44,419	46,388	46,897	27,950	31,869	32,657	33,077	30,637
Financial Ratios (percentages)										
Debt to Total Capital Employed	32.7	36.1	24.7	25.8	28.3	33.0	28.6	26.2	21.2	23.7
Return on Average Common Stockholders' Equity	14.8	–(a)	10.9	11.2	10.2	10.9	14.9	15.7	16.6	12.6

(a) Earnings before special charge were $485 million and $4.20 per share and return on average common stockholders' equity was 10.4%.

(b) Data include effects of the Overnite Transportation acquisition as of December 31, 1986 and of the Missouri Pacific and Western Pacific acquisitions as of December 31, 1982, and thereafter.

(c) Includes exploratory expenditures and capital expenditures of unconsolidated affiliated companies.

1 Drew Lewis
2 William Cook
3 Henry Kissinger
4 Downing Jenks
5 Morris Miller
6 William Grant
7 Edward Palmer
8 Virgil Conway
9 Spencer Eccles
10 Robert Bauman
11 Hamilton Mitchell
12 John Fery
13 Warren Shapleigh
14 Elbridge Gerry, Jr.
15 John Meyer
16 Richard Simmons
17 Minot Miliken
18 Robert Roth

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The Seamen's Bank for Savings, FSB
New York, New York

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Retired Chairman and
Chief Executive Officer
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Richard D. Simmons
President, The Washington Post Company
communications
Washington, D.C.

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Drew Lewis
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Vice President
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Vice President and Controller

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Marketing and Sales

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Senior Vice President
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New Orleans

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Kenneth Morrill
Vice President
Customer Service

Joseph M. Ostrow
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Marketing and Sales
Special Projects

John H. Rebensdorf
Vice President
Strategic Planning

Donald A. Shum
Vice President
Marketing

Guerdon S. Sines
Vice President
Information and Communication Systems

Thomas L. Watts
Vice President
Labor Relations and Personnel

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President

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Manufacturing and Marketing

Eugene A. Lang
Senior Vice President
Minerals

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Denver

Gerald J. Casler
Vice President
Supply and Transportation

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Vice President
Operations - Minerals

Robert S. Jackson
Vice President
Finance

William H. Locke
Vice President
Employee Relations

Vincent Matthews III
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Jerrold M. Pachman
Vice President
Planning and Administration

L. Daniel Prescott, Jr.
Vice President
Government Relations and Public Affairs

Joseph E. Sparano
Vice President
West Coast Operations
Manufacturing and Marketing

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Vice President and General Counsel

Overnite Transportation Company

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Chairman

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President

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Senior Executive Vice President

Roy S. Cayton
Executive Vice President

J. R. Farish
Senior Vice President

W. F. Koch
Senior Vice President

A. L. Branham
Vice President
Insurance and Personnel

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Pricing

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Vice President
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Vice President
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Vice President
Maintenance

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Vice President and Treasurer

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Vice President
Claims

B. L. Whitener
Vice President
National Accounts

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Controller

USPCI

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Larry Shelton
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Ken Jackson
Senior Vice President

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Vice President
Finance and Strategic Planning

Union Pacific Realty Company

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President

Lee E. Olson
Senior Vice President

R. David Uhrich
Senior Vice President

John H. Dyer
Vice President
Finance and Administration

Byron D. Strattan
Vice President
Law

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(212) 418-7800

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Richmond, Virginia 23209

USPCI, Inc.
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2000 Classen Center Buildings
Oklahoma City, Oklahoma 73106

Union Pacific Technologies
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St. Louis, Missouri 63117

Union Pacific Realty Company
345 Park Avenue
New York, New York 10154

Transfer Agent and Registrar of Stock
Morgan Shareholder Services Trust Company
30 West Broadway
New York, New York 10007

If you have any questions regarding your account, contact Morgan's Telephone Response Center at (212) 587-6515 on weekdays between 9 a.m. and 5 p.m. or write to Morgan at the above address.

Stock Listing
New York Stock Exchange
Ticker Symbol: UNP

Annual Meeting of Stockholders
April 15, 1988, 9:00 a.m.,
Little America Hotel
Salt Lake City, Utah

The proxy statement and proxy form will be mailed in March.

SEC Form 10-K
A copy of the Corporation's 1987 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, may be obtained by writing to:
Secretary
Union Pacific Corporation
345 Park Avenue
New York, New York 10154

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Union Pacific Corporation

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