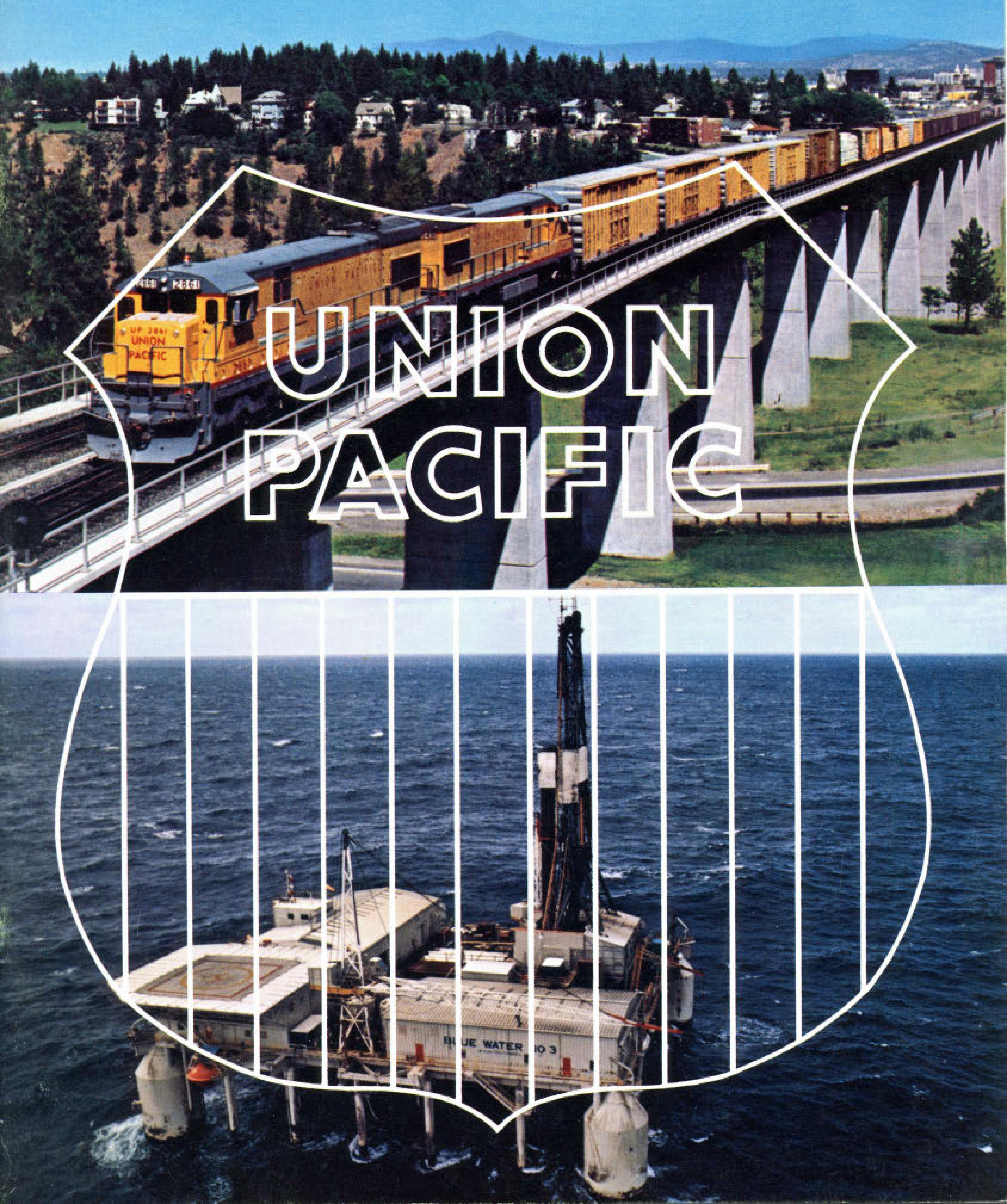
UNION PACIFIC CORPORATION ANNUAL REPORT
1973



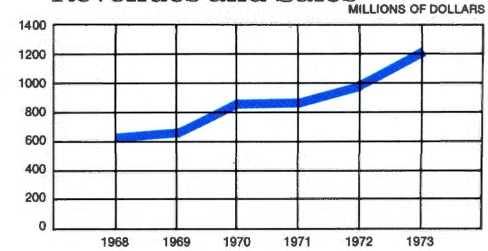
UNION PACIFIC CORPORATION

1973 Annual Report

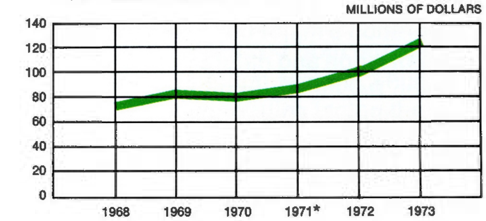
Highlights

Highlights	1973	1972
Gross Revenues and Sales	**$1,224,208,000**	$1,094,397,000
Net Income	**$ 127,107,000**	$ 104,479,000
Per Share of Common Stock:		
Net Income	**$5.61**	$4.62
Dividends Declared	**$2.24**	$2.00
Operating Cash Flow	**$ 283,050,000**	$ 248,020,000
Capital Expenditures	**$ 187,541,000**	$ 149,950,000
Working Capital (end of year)	**$ 128,438,000**	$ 62,296,000
Stockholders' Equity (end of year)	**$1,653,729,000**	$1,569,662,000
Stockholders of Record—Common and Preferred (end of year)	**74,606**	78,708
Average Number of Employees	**29,350**	29,732

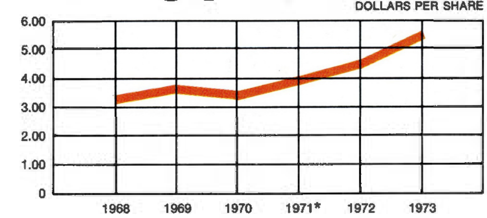
Revenues and Sales



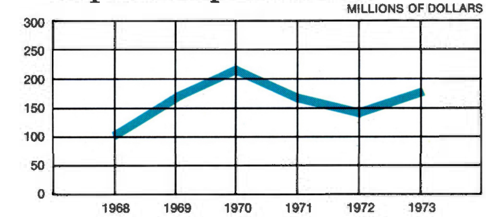
Net Income



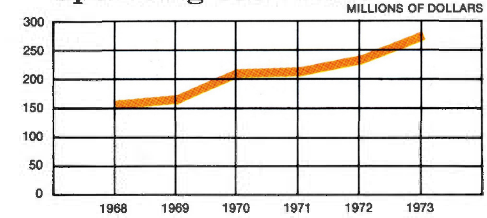
Earnings per Share



Capital Expenditures



Operating Cash Flow



* Before extraordinary item

Contents

Front Cover: *Top*—Union Pacific freight train heads south from Spokane, Wash. site of Expo '74. *Bottom*—In 1973 Champlin Petroleum and its partners in the Halibut Group confirmed the discovery of a major oil field in the British North Sea.

Opposite page—Development of Rocky Mountain Energy's coal reserves was accelerated in 1973. This Union Pacific Railroad unit coal train is being loaded at a Wyoming mine for a round-trip to Wisconsin.

James H. Evans

To Our Stockholders:

Union Pacific Corporation sustained its service objectives to its customers and the nation in 1973 while accomplishing record revenues, sales and earnings.

Net income for Union Pacific in 1973 was $127.1 million, an increase of 22 percent over the $104.5 million in 1972. Earnings per share were $5.61 in 1973, compared with $4.62 a share in 1972. Gross revenues and sales totaled $1.2 billion in 1973, up 12 percent from $1.1 billion in 1972.

Reflecting this strong performance in 1973, the quarterly dividend on common stock was raised 20 percent from 50 cents to 60 cents a share.

Results in 1973 reflected higher earnings from both of Union Pacific Corporation's major business areas: transportation and natural resources.

Union Pacific Railroad achieved record earnings as it reached an all-time high of 58.5 billion revenue ton-miles in 1973, an increase of 15 percent over 1972. Viewed as a long-term trend, the 1973 ton-mile record is even more significant. It represents a gain of 67 percent over the 35.1 billion ton-miles achieved just ten years ago. Shipments of virtually all commodities were higher, with particular strength in manufactured products, wheat, corn and other feed grain, coal and soda ash.

Rapidly climbing labor and material costs were only partially offset by increased freight rates. Further increases in such costs in 1974 will, as they did in 1973, require rigorous cost controls and improved utilization of equipment as well as prompt and responsive recognition by the Interstate Commerce Commission.

Champlin Petroleum highlighted the performance of Union Pacific's natural resources business in 1973. Champlin's three oil refineries operated at near capacity levels during most of the year and with demand strong for all products in both the wholesale and retail markets the company had record earnings for the year. Champlin was able to expand its exploration program in Wyoming, the British North Sea, and in certain other areas including Peru, The Philippines and Indonesia, as previously reported. In December Champlin, in company with Exxon, Mobil, and Kerr-McGee was high bidder on nine Federal leases aggregating nearly 52,000 acres in the waters off the Gulf Coast of Florida.

Rocky Mountain Energy continued to progress during 1973 in the development of Union Pacific's large reserves of low-sulfur Western coal. Nearly four million tons of coal were mined from its lands, four times the tonnage mined just five years ago. The next twelve months should see even more rapid development of our reserves, with the start-up of two joint mining ventures, in which Rocky Mountain Energy has a 50 percent interest, that will have a combined annual production rate in excess of four million tons. These new mines will be served by the Union Pacific Railroad, which hauled more than ten million tons of coal in 1973, as compared to six million tons just two years ago.

Legislative Progress

When the President signed the Regional Rail Reorganization Act on January 2, 1974, he endorsed a concept that has broad support from rail users in all parts of the country as well as the rail industry and railway labor. This landmark legislation is designed to permit the continuance under private ownership and the improvement of vital rail service in the Northeast. It emphasizes a free enterprise approach backed by Federal aid, primarily in the form of loan guarantees.

Union Pacific Railroad derives more than 25 percent of its traffic to and from the 17 northeastern states. Our role in efforts to solve the Northeast rail crisis was based, therefore, on the fact that the overall level of service to customers by the nation's rail system is affected adversely by its weakest components.

On the Congressional agenda for the current session are proposals to further strengthen all of the nation's railroads by providing for badly needed streamlining and accelerating of freight rate and abandonment procedures, the banning of discriminatory state and local taxation, and expansion of computerized car control.

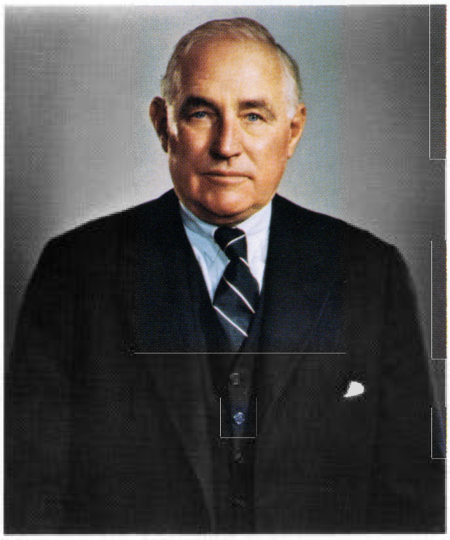
The improved outlook for constructive rail legislation and regulatory modernization—reflecting in part a recognition of the inherent energy-consumption efficiency of rail freight transportation—further reinforces our firm belief in railroading as a growth industry. A single ounce of diesel fuel burned in a freight locomotive will pull a ton of rail freight five miles.

Rock Island Status

Activity in the Rock Island merger case picked up considerably in 1973 after approximately ten years of regulatory litigation. The administrative law judge for the Interstate Commerce Commission issued the third and final volume of his recommended report and order in February, Union Pacific filed its response in August and exceptions to the proposed order were filed in October. Oral arguments were presented to the Commission during November. It is anticipated that the Commission will soon issue its decision.

In its summary statement to the ICC in August, Union Pacific noted the substantial physical and financial deterioration that the Rock Island had suffered during the nearly ten years of this proceeding. The Rock Island management also was informed that, in light of the changed circumstances of the two railroads, the merger exchange ratio agreed upon in 1965 will have to

Frank E. Barnett



Elbridge T. Gerry

be re-evaluated. At the date this report is written the outcome of the review is not predictable. It is possible that litigation may follow the Commission's decision in the case and neither the ultimate resolution of the matter nor the effective date can be forecast at this time.

Meeting America's Energy Needs

Last year we noted that continued shortages of energy could pose serious problems for our country. Unfortunately this has happened. Despite the fact that some people still are not convinced that the energy crisis is real, there have been severe dislocations in many parts of the country. The gratifying cooperation of the American people in reducing energy consumption has thus far staved off a much worse situation.

In our 1972 report we said,"Top national priority must be given to the accelerated development of America's own energy-related natural resources, especially oil, gas, coal and, over the longer term, uranium." We believe this even more strongly today and agree that our national common goal must be to minimize our dependence on foreign energy sources.

At present there is uncertainty on how to reach that goal. Some critics view the oil companies as a collective scapegoat. Through coercive and punitive measures, diminution or elimination of incentives, even threats of nationalization by extremists, some would seek to "legislate" adequate reserves. We believe proposals like these, if adopted, can only create even greater dislocations and scarcity than the nation faces today. We believe we can solve our common problem only by proceeding in a constructive spirit of cooperation. This means careful balancing of the need to protect our environment with the need to develop new energy resources.

It also means providing the incentives to attract the capital that will be needed to develop the nation's energy resources. Leading economists have estimated that between 1970 and 1985 the free world's petroleum industry must invest more than $800 billion to meet its currently projected exploration and construction requirements. A medium-sized new oil refinery currently costs upwards of $350 million and takes two to three years to complete. A medium-sized coal gasification plant with related mines and distribution pipelines may cost $800 million. To attract necessary capital on this scale, it is imperative that investors be provided the opportunity for an adequate return.

The sooner the nation can turn to constructive discussion of how to attract this urgently needed capital from the private sector, possibly supplemented by governmental assistance in developing costly new technologies, the sooner it can bring the talent and effort to bear on finding solutions. We in Union Pacific believe the time is overdue to undertake the cooperative effort that is needed to make our nation self-sufficient in energy.

Harold B. Lee

With profound sorrow we record the death of Harold B. Lee on December 26, 1973. Mr. Lee, President of the Church of Jesus Christ of Latter-day Saints was a distinguished leader in business and education as well as in church affairs and had given Union Pacific his wise counsel as a Director for 16 years. His influence for good extended throughout the world and there were few men more loved and respected. He was a constant inspiration to all of us in the Union Pacific family.

Outlook

The 1974 prospects of all major corporations must be viewed in the light of dislocations stemming from the energy shortage coupled with a continuing high rate of inflation. Certainly Union Pacific will be challenged by these factors, particularly the cost/price squeeze. We should benefit, however, from our basic strengths in energy-related businesses and from our very strong transportation system. Thus, despite the uncertainties facing the economy in 1974, we are optimistic about the Corporation's ability to maintain the momentum necessary for continued long-term growth.

On behalf of the Board of Directors we express our deep appreciation to all members of our organization who have worked so diligently and effectively for the thousands of businesses and consumers it is our privilege to serve. We also thank our stockholders, customers, dealers and distributors for their confidence and support.

Frank E. Barnett
CHAIRMAN OF THE BOARD
OF DIRECTORS

James H. Evans
PRESIDENT

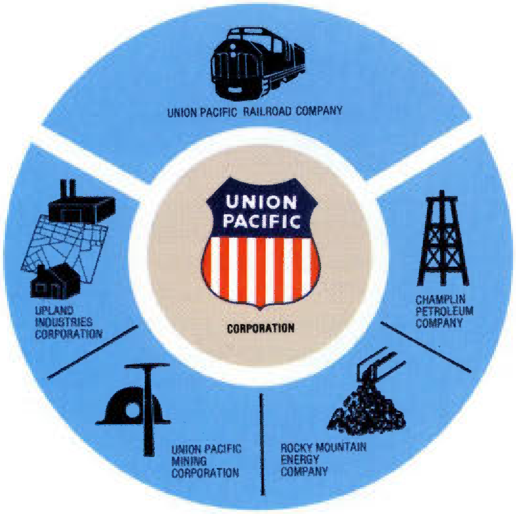
Elbridge T. Gerry
CHAIRMAN OF THE
EXECUTIVE COMMITTEE

New York, N.Y., February 15,1974

This is Union Pacific...

The roots of Union Pacific go back more than a century to the pioneering of the transcontinental railroad, the development of land in the West and the mining of coal to fire steam locomotives. In 1904 and 1909 Union Pacific purchased properties in California and Colorado that were later to become two of the nation's largest oil fields. Union Pacific pioneered the development of the trona (natural soda ash) industry in Wyoming during the Forties, began exploring other hard rock mineral interests in the Fifties and commenced uranium exploration in the Sixties.

These are the traditional lines of business for Union Pacific: transportation and natural resources—especially oil and gas, coal, trona, uranium and land. Union Pacific seeks and achieves growth through the development of its traditional businesses—the ones our people have always known best. By concentrating efforts on excellence in serving America in freight transportation and natural resources the Corporation will continue striving to serve the best interests of its stockholders, its employees, and the general public.



(1) Champlin Petroleum's wide-ranging exploration program has increased its success ratio by emphasizing highly prospective areas such as Brady Field in Wyoming where oil and gas have been found in six formations, each at a different depth.

(2) For several years Union Pacific Railroad has set consecutively higher records for ton-miles of revenue freight.

(3) Union Pacific executives inspect one of the mines at Green River, Wyo. where the world's largest deposit of trona (natural soda ash) is being developed. From left: President James H. Evans, Chairman of the Board Frank E. Barnett and Union Pacific Mining President James C. Wilson.

(4) Rocky Mountain Energy Company has more than 10 billion tons of coal reserves in the West. Development of these resources will help meet the nation's energy needs.

(5) Robert Lee Sackmaster, UP engineer at the Albina Yard in Portland, Ore. displays some of the spirit inherent in the Railroad's "We Can Handle It" slogan.

(6) Upland Industries develops rail-served industrial parks that include grading, roadways, drainage systems and utilities. This million-square-foot Gates Rubber Company distribution facility is located in an Upland industrial park at Denver, Colo.

(7) Champlin is increasing crude oil production at its Wilmington Field in Southern California with the aid of secondary recovery techniques utilizing water recycling.

(8) Uranium exploration team from Union Pacific Mining conducts core drilling operations in mountainous western area.

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Corporate Information

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

OPERATING GROUPS

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

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

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

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

TRANSFER AGENT
Union Pacific Corporation
120 Broadway, Room 2849,
New York, N.Y. 10005

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

STOCK LISTING
New York Stock Exchange
Ticker Symbol—UNP

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

ANNUAL MEETING OF STOCKHOLDERS
May 14, 1974—12:00 Noon, Hotel Utah, Salt Lake City, Utah
The proxy statement and form of proxy will be mailed in early April.

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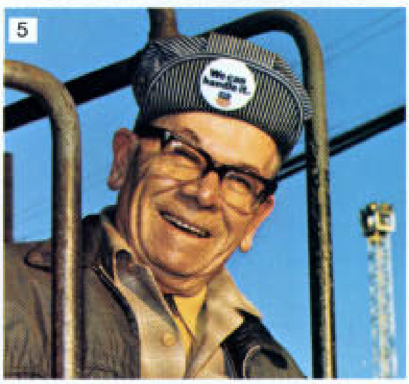

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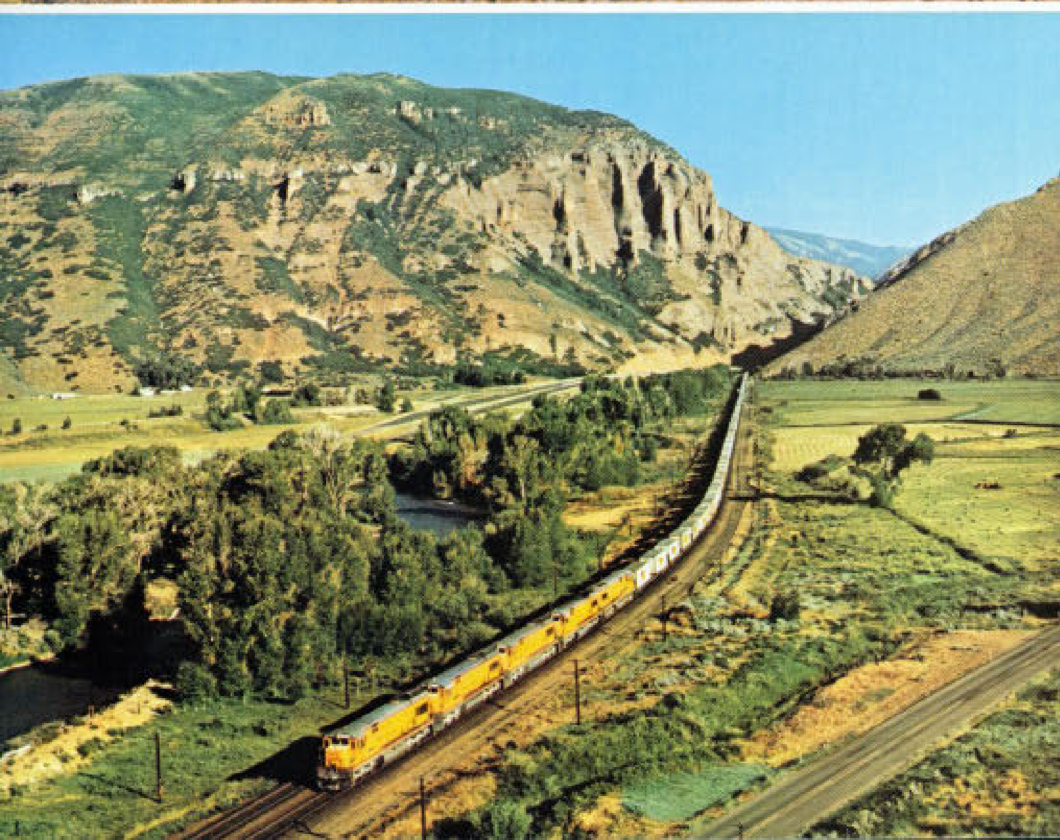


A Record Year for Dependable Freight Transportation

No form of land transportation can match the efficiency of railroads in hauling freight long distances. Union Pacific Railroad moved freight for shippers in 1973 at an average revenue of less than one and one-half cents per ton-mile. Yet the Railroad's efficient performance translated this "pennies a mile" rate into substantial earnings. With increased demand for rail service, Union Pacific achieved record revenues, earnings, ton-miles of revenue freight and carloadings in 1973. This reflects a dedication to customer service that permeates all of the Railroad's operations. New services and schedules were inaugurated and maintained. Substantial capital investments were made to maintain highly competitive, dependable railroad operations now and in the future.

Union Pacific's capital improvements are extensive. Expenditures for equipment and facilities in 1973 totaled $139.4 million. Plans for 1974 indicate a 30 percent increase to $181.3 million. In the decade from 1964 through 1973 the Railroad's capital expenditures were $1.4 billion.

This investment has provided Union Pacific with one of the youngest fleets in the nation. It also has provided maintenance and servicing facilities, intermodal trailer and container terminals, communications and electronic data processing systems and a right of way that are among the most modern in the industry. Only by such continual upgrading can rail operations combat the cost/price squeeze caused by today's inflationary economy so that customers' freight still can be moved

Top—Union Pacific Railroad freight train makes its way up a grade just below Smith's Ferry, Idaho.

Bottom—Union Pacific increased its container freight traffic by 69 percent in 1973 as thousands of containers moved across the West in trains like this one near Petersen, Utah.

profitably for pennies a ton-mile. At the beginning of 1973 the capital investment in rail facilities per rail employee was $68,718. In 1973 this increased to $71,837 per rail employee.

Freight Operations—Overall transportation revenues for Union Pacific were $882.2 million in 1973, an increase of $102.8 million or 13.2 percent from $779.4 million in 1972. The increase reflected improved utilization of equipment and record volume. Union Pacific achieved a new high of 58.5 billion ton-miles of revenue freight in 1973, an increase of 15 percent over 50.9 billion ton-miles in the prior year.

Shipments of virtually all commodities were higher in 1973. Manufactured products, wheat, corn and other feed grain, coal and soda ash were among the leaders. The tonnage contribution and percentage of change by major categories of freight traffic are shown in the table at the bottom of this page.

Trailer and container freight traffic increased 25 percent in 1973 and averaged 784 miles per haul, the highest average of all Class I railroads. Union Pacific Railroad's revenues from this traffic were $70.6 million, up 26 percent from 1972. The Railroad in 1973 enlarged trailer and container facilities at Omaha, Nebraska, Portland, Oregon and Los Angeles, California. In all, Union Pacific operates 52 intermodal freight terminals in the West.

Union Pacific demonstrated considerable strength in its own territory, originating 58 percent of its carloadings. Total carloadings increased 10 percent in 1973 compared with the prior year. Cars loaded on line increased 13 percent and cars received from connections increased 5 percent.

Despite rising labor and material costs, Union Pacific Railroad in 1973 held its operating ratio (operating expenses as a percent of revenues) at

Freight Traffic by Commodities in 1973:

Commodity Group	Tons Carried	Percent Increase	Percent of Total
Farm Products	17,992,970	25.6	19.6
Coal	10,505,463	31.6	11.4
Lumber, Wood Products, Furniture and Fixtures	10,351,848	4.4	11.3
Food and Kindred Products	9,882,545	2.6	10.7
Non-Metallic Minerals	9,475,929	27.5	10.3
Chemicals and Allied Products	8,533,738	14.6	9.3
Iron and Metallic Ores	5,499,000	10.3	6.0
Miscellaneous	19,698,968	13.7	21.4
Total, All Commodities	91,940,461	16.3	100.0

Kansas track program...

Union Pacific Railroad is spending more than $14 million on a major track construction program between Kansas City and North Platte to better handle the growing volume of freight. Span (top) for a second 360-foot bridge over the Big Blue River was prefabricated and then reassembled on site near Marysville, Kans. where (bottom) footings were prepared. Inspecting track relocation project near Herkimer, Kans. (center) are UPRR President John C. Kenefick, left, and Chief Engineer Robert M. Brown.

Standing out brightly in the Salt Lake City twilight is a new "one-spot" freight car repair facility where crews work 'round the clock to keep cars in service.

Railroad—continued

74.05 percent. This was only slightly higher than 73.69 percent in 1972, and was lowest among leading Western railroads.

The very high freight volume in 1973 presented a heavy challenge to management. Even with a fleet as large as Union Pacific's, the key factor is keeping locomotives and freight cars on the move and in the right place at the right time.

During 1973 the Railroad achieved an average of 105 miles per car per day, including all cars whether idle or not. This is nearly twice the industry average. Distance of the average haul was 656 miles, longest in the industry and more than twice the average of about 300 miles for all Class I railroads.

In 1973 America's railroads were called upon to handle a bumper grain harvest, including unprecedented export movements. Union Pacific's carload movements of grain in 1973 increased more than 57 percent. More than 11,000 freight cars were used for grain on the UP and covered hopper cars are being added to the fleet at a rate in excess of 1,000 a year. Union Pacific created many special grain trains which carried more than 12 million bushels during the last quarter.

Freight train innovations in 1973 included a new potato/onion mixed carload service from the Northwest as well as a new fresh fruit and vegetable fast run-through train from California to the Eastern Seaboard in cooperation with three other railroads. Unit train service from Western coal mines and volume movements from Wyoming soda ash producing areas continued to grow.

Material and Labor Costs, and Freight Rates—Together with the rest of the nation's railroads, Union Pacific experienced sharply higher material and labor costs in 1973.

Diesel fuel price increases in 1973 added more than $9 million to the Railroad's costs. Due to timber shortages the average cost of cross ties increased more than 30 percent. Steel wheels rose in average cost from $88 to $97.

Higher freight revenue for Union Pacific Railroad during the year was aided both by freight rate increases that became effective during 1973 and by the full-year impact of rate increases granted in 1972. The higher freight rates, however, were not sufficient to offset almost $45 million in increased labor expenses as well as $13.6 million in higher costs for diesel fuel, track supplies and other material during 1973. The Interstate Commerce Commission has expedited rate procedures in recent months and higher rates are being allowed in response to rising fuel costs. Further rate relief will be needed by the nation's railroads in the year ahead.

Energy Utilization and Conservation—Railroads are a part of the solution to the problem of national energy conservation. They outrank other modes of intercity freight transportation in the efficient use of fuel, consuming only a quarter of the fuel per ton-mile required by intercity trucks. There are indications that more motor carrier traffic may be diverted to rail as a result of the fuel shortage. Union Pacific also contributes to the nation's energy supply by hauling millions of tons of coal and petroleum products each year.

In 1973 Union Pacific instituted measures which will result in substantial fuel savings and contribute to the national conservation effort. The Railroad reduced speeds on some trains, cut back maximum horsepower and used new techniques to reduce fuel spillage. Even more intensive conservation efforts will be required in 1974 to maintain efficient service with minimum fuel usage.

Looking further ahead, the Railroad is continuing its extensive studies of the possible electrification of its main line from North Platte, Nebraska to Salt Lake City, Utah and Pocatello, Idaho. There is no mode of transportation that could use power generated from coal as efficiently as the electric locomotive. The Railroad erected one test section of electric catenary in December in Utah and will install another section during the spring in Wyoming. Although they will not be used to power locomotives, these catenary installations will make possible testing of interference with signal and communication lines and the ability of the high voltage lines to withstand severe weather extremes.

In 1973 Union Pacific Railroad completed a three-year, $4.7 million investment in its Pocatello, Idaho complex where both locomotives and freight cars are serviced and repaired.

Modern Equipment and Facilities—In 1973 Union Pacific's capital investment in transportation totaled $139.4 million, of which $100.9 million was earmarked for new equipment. Acquisitions included 80 new 3,000-HP diesel locomotives and 2,808 freight cars.

The investment in 1974 of $128 million in rolling stock will provide 80 new 3,000-HP and 40 new 2,000-HP diesel locomotives and 3,395 freight cars.

A major right-of-way improvement program that will aid greatly in handling the increasing freight volume through the Kansas City gateway continued to progress in 1973 (see photos on page 7).

Six freight car repair facilities were completed in 1973. Work continued on major modernization programs for locomotive component overhaul and repair facilities at Omaha and locomotive servicing and repair facilities at Salt Lake City.

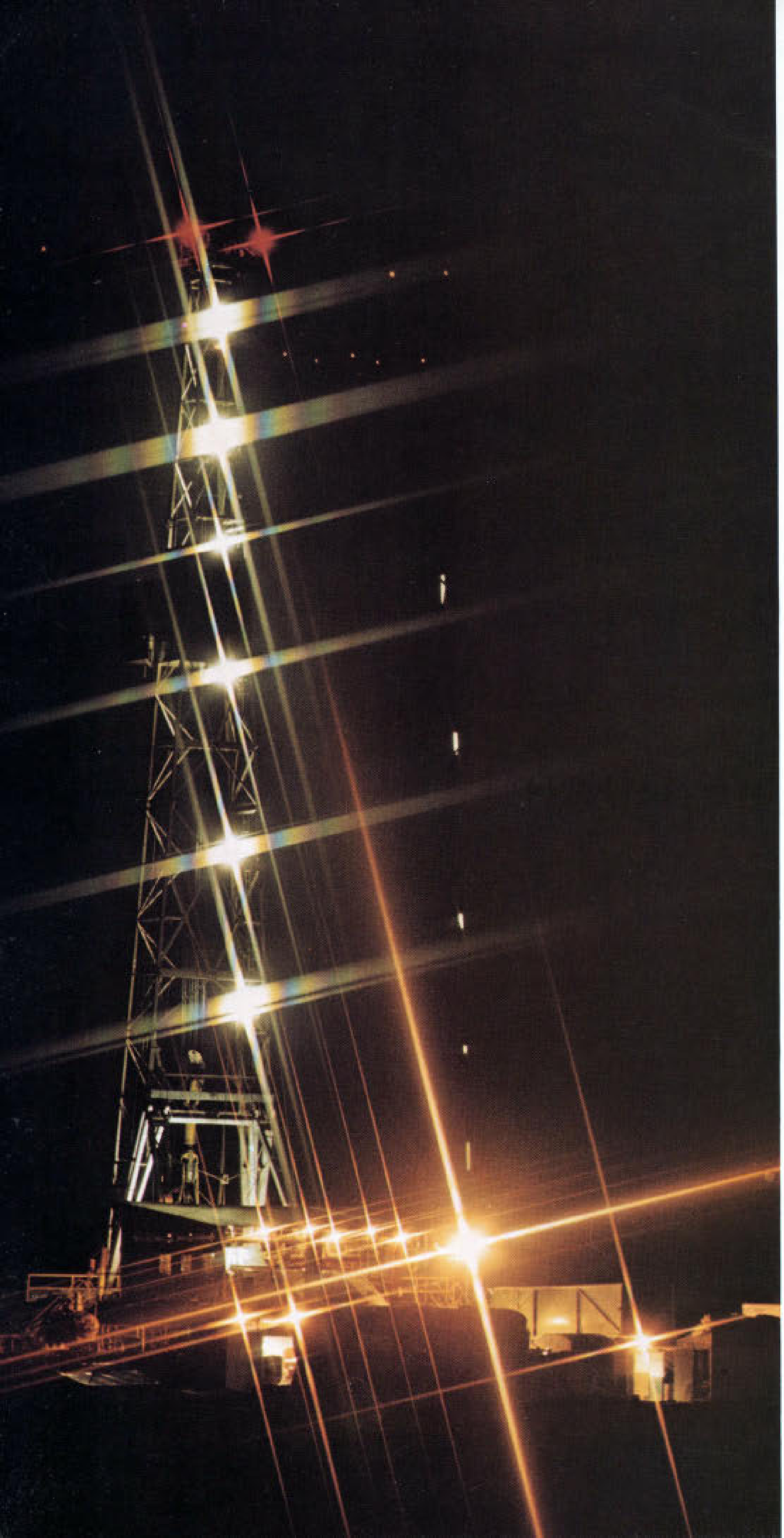
Maintenance Programs Aid Performance in 1973—High traffic volume put an added burden on maintenance of equipment and the Railroad spent $98.1 million in 1973 to ensure maximum availability of rolling stock. This was an increase of $9.8 million compared with 1972.

The maintenance of way program in 1973 achieved the installation of 522 miles of rail, including 290 miles of new all-welded rail on the main line. A total of 377,517 cross ties were replaced. This was well below the planned number because of the great difficulty in obtaining ties at any price. The Railroad surfaced and reballasted 1,796 miles of roadway during the year.

Officer Elected—C. Barry Schaefer, 35, formerly Western General Counsel, was elected Vice President and Western General Counsel of Union Pacific Railroad Company in December.

Top—Construction of a large central facility at Omaha for the overhaul and repair of major diesel locomotive components proceeded on schedule. Completion is due in late 1974.

Bottom—Record wheat harvest in the Midwest put heavy demand on Union Pacific to keep its rolling stock at peak utilization in 1973.



Exploration and Development of Energy Resources

Champlin Petroleum Company, largest of Union Pacific's natural resources businesses, is engaged in an extensive program for the exploration and development of oil and gas. Once found and developed to the production stage crude oil and gas move by pipelines and tankers to Champlin refineries and gas processing plants. Emerging as refined petroleum products they are distributed to the consumer through both wholesale and retail marketing channels.

Substantial amounts of capital are required to drill two or three miles down into rock formations to find recoverable petroleum as well as to develop all the necessary refining and distribution facilities to bring finished products to the consumer. There are no "sure things" in oil wildcatting. Exploration costs and risks are high in North America and even higher in the British North Sea where oil lies under 500 feet of water and 90-foot waves threaten winter operations. Yet Champlin significantly improved its success ratio in 1973.

Exploration and Development Programs—Champlin Petroleum continues to broaden the scope of its search for oil and gas. Major fields were identified by drilling activity during 1973 in the British North Sea and Wyoming, and Champlin acquired new interests in promising offshore Florida tracts in early 1974. Other domestic and international areas of significance to the exploration program are the Rocky Mountain states, Peru, The Philippines and Indonesia. Champlin's oil and gas leases total 1.2 million acres—347 thousand acres held by production and 862 thousand leasehold acres not under current production.

Giant Field Discovered in North Sea—Northeast of Scotland in the British North Sea, the Halibut Group, in which Champlin has a 22½ percent interest, confirmed the new Thistle Field in its Block 211/18 as a major commercial

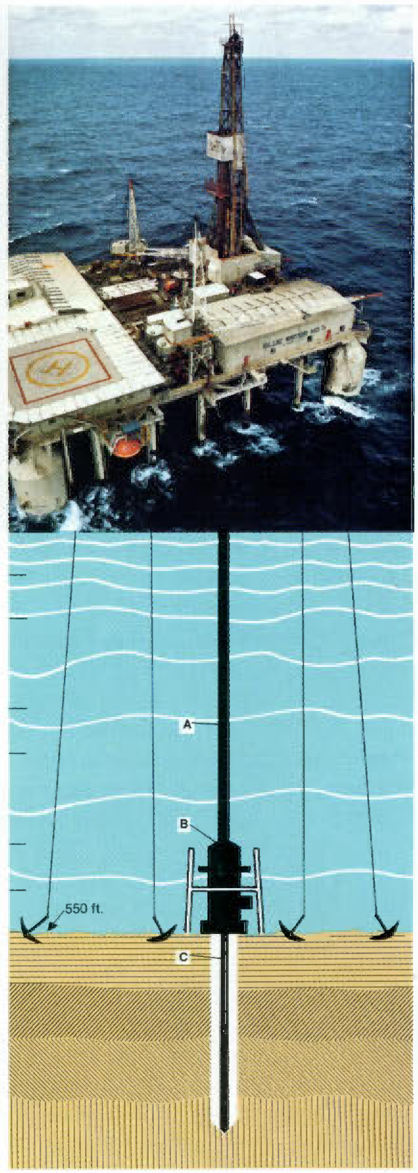
Champlin people work long into the night to speed the development of Brady Field in Wyoming.

field. The four consecutive discovery wells drilled in the field in 1972-73 tested at flow rates of 5,200 to 6,200 barrels a day. A permanent drilling platform capable of handling up to 200,000 barrels a day is planned to be operational in 1977. This is the northernmost field in the North Sea to date. In 1974 the Group plans further drilling in other prospective structures on its Block.

Development of Brady Field—Discovered in 1972, Brady Field in Sweetwater County, Wyoming is being developed as rapidly as the availability of drilling rigs and a carefully designed program will permit. Thirteen wells have been completed or are under way by Champlin as operator, and oil production from the field has been carried by a new pipeline since October. The 13-mile line connects Brady Field with Champlin's Wamsutter Pipeline Terminal at Bitter Creek, Wyoming. The Brady development program is designed (1) to determine the structure of the six formations, each at a different depth, in which oil and/or gas has been discovered; (2) to determine the limits of the reservoirs; and (3) to provide for the efficient recovery of these hydrocarbons. Although production from the new Brady Field in southern Wyoming has commenced, it will not be a significant factor in overall production until field development is more advanced. A planned gas processing plant is projected to come on-stream in mid-1975. While further development and analysis of results will be required before definitive estimates of reserves can be made, it would appear that the presently known combined oil and gas equivalent recoverable reserves of the Brady Field are at least 100 million barrels. Champlin holds a 41.25 percent interest in the Brady Unit and also will receive royalties on production from its portion of the leases.

From southern jungles to northern seas...

Seismic crew penetrates deeply into the Amazon jungle in Peru to gather data for Champlin group under contract with Petroperu, an agency of the Peruvian government.



Above—Bluewater No. 3 platform operating for Champlin and its partners floats on the surface of the British North Sea (photo) and lowers tubular drill pipe through casing (A) 550 feet to seabed where subsea control system (B) is implanted and drill bit (C) cuts through bedrock toward oil-bearing formation. The semisubmersible platform is held in position over the drilling site by cables and eight mooring anchors, each weighing ten tons.

Offshore Florida — Champlin joined with Exxon Corporation, Mobil Oil Corporation and Kerr-McGee Corporation in submitting successful bids of $699.8 million on nine 5,760-acre tracts off the Gulf Coast of Florida. The Department of the Interior, Bureau of Land Management, issued leases to the group effective January 1, 1974. Champlin's share of the total bids was $120.8 million. Six of the tracts are grouped together on the Destin anticline about 70 miles southeast of Pensacola; two tracts are 10 miles farther southeast; and one is about 110 miles northwest of Tampa and 80 miles offshore. The water depth ranges from 130 to 245 feet. It is anticipated that exploratory drilling will be under way during the spring of 1974.

Peru/Philippines/Indonesia—Champlin and its partners continued seismic studies during 1973 in Peru where the group has a block in the Oriente region

Champlin – continued

under a contract with Petroperu, the state-owned oil company. Drilling on the block will begin in the second quarter of 1974.

During 1973 Champlin extended its exploration program to two new areas—The Philippines and Indonesia. A service contract with the government of The Philippines covers exploration in 1.4 million acres offshore Palawan Island, southwest of Manila. Champlin is operator and holds a 70 percent interest. A similar contract with the government of Indonesia gave Champlin a 53.875 percent interest in 18 million acres offshore Irian Jaya. Seismic studies are under way in both areas, with exploratory drilling planned in late 1974.

The Amoco Drilling Agreement—Amoco Production Company, a subsidiary of Standard Oil of Indiana, paid $3.6 million in 1973 to renew for another year its 1969 agreement with Union Pacific which granted Amoco the right to acquire oil and gas leases on lands in Wyoming, Colorado and Utah. The land still subject to the agreement now totals 4.8 million acres. Amoco and other operators have spent more than $90 million for exploration and development on farm-outs thus far. By year-end 1973, more than 1,200 wells had been drilled of which 442 were successful oil and gas wells. Discoveries include 25 oil and 16 natural gas fields, including Peoria Field, the second largest Colorado oil field in daily production; and Wattenberg Field, a gas field that is the state's largest in area. Champlin has drilled 47 successful wells to date on its retained acreage under terms of the agreement and receives royalties on production from lands leased to Amoco.

Certain sections to which Amoco already relinquished its rights will be explored under a three-year agreement announced in January, 1974, with Pexamin Petroleum Company and CTD Resources Group, Ltd. The two companies have been granted rights on 1.2 million acres in southeastern Colorado and will spend $4 million on exploration of these lands. Discoveries by the companies can earn leases subject to a 15 percent Champlin royalty. Champlin also has the option to retain a 35 percent working interest in any discoveries.

Production in 1973—Champlin's production of crude oil and condensate in 1973 totaled 16.0 million barrels, compared with 16.8 million barrels in 1972. The decrease in production is due to the normal decline in the volume of oil and gas obtained from mature fields. Initial production from new fields and the increase in production from secondary recovery operations have not yet reached a high enough rate to offset the normal decline.

Production at the mature Wilmington field in Southern California improved during the fall as a result of a new program for secondary recovery of oil by water injection methods. It is anticipated that this program will make significant increases in production during 1974.

Agreements to process crude for other companies at Corpus Christi, Texas and Enid, Oklahoma helped to keep Champlin's refineries operating at near capacity levels for most of the year. The continuing pressure of crude oil shortages coupled with the Federal mandatory allocation controls will make it difficult to maintain refinery throughput at 1973 levels in the current year.

Marketing—Champlin gasoline is marketed in 18 mid-continental states through dealers, consignees and jobbers. Shortages of crude oil feedstocks and problems with allocations began to affect Champlin's marketing efforts in 1973.

Wholesale shipments of more than 5.3 million barrels of refinery products from Corpus Christi to the Atlantic Seaboard by customers' tankers helped to meet fuel shortages in the Northeast.

Pipeline Operations—The Calnev Pipe Line Company, a wholly-owned interstate carrier between Colton, California and Las Vegas, Nevada, delivered 15.6 million barrels of petroleum products in 1973, up from 14.1 million barrels in 1972. A program for the expansion of the capacity of the 248-mile line to 14-inch diameter was completed in 1973. Jet fuel and gasoline are the major products moved through the Calnev line which receives products through connections with lines from various Southern California refiners.

New Officers—Three new officers joined Champlin in 1973: Albert L. Diano, 48, Vice President—Finance and Administration; David Goodwill, 52, Vice President—Production; and Donald D. Swanson, 43, Vice President and General Manager — Enid.

Top—Champlin dealers in the mid-continental U.S. offer tips to consumers on improving auto performance to conserve gasoline.

Bottom—In 1973 the enlargement of the Calnev pipeline made possible increased throughput of petroleum products. A wholly-owned interstate common carrier, the Calnev line extends from Colton, Calif., near Los Angeles, to Las Vegas, Nev.

Development of Coal Resources Continues to Expand

America's interest in her most abundant conventional energy resource—coal—was explosively reawakened in 1973, but there is no way to open a mine and acquire the requisite machinery instantly. Mines already in operation on Rocky Mountain Energy Company's property continued to step up production. Getting a *new* mine operational, however, means a drawn out time frame... to complete environmental impact studies, to obtain delivery of highly specialized mining equipment, to construct roads and rail spurs and to obtain an adequate labor force. Thus, the problem is not the supply of coal, but the time-lag in making it available for use. It is this time-lag, more than any other factor, which may well create a painful period for this country.

Low-Sulfur Coal Reserves—Rocky Mountain Energy has one of the nation's largest reserves of recoverable coal, estimated at more than ten billion tons. Most of this coal, located in Wyoming, Colorado and Utah, contains less than one percent sulfur. Rocky Mountain Energy is actively striving to develop these large reserves through joint mining ventures, leases, and participation in coal gasification research and development projects.

Nearly four million tons of coal were mined in 1973 from Rocky Mountain Energy lands, an increase of 27 percent from the previous year. The increase resulted primarily from mining on lands leased late in 1972 and early in 1973. Shipments from Wyoming mines traveled regularly to utilities in Nebraska, Iowa, Missouri, Wisconsin and Illinois.

Rocky Mountain Energy's coal royalties increased almost 50 percent in 1973 and further gains are anticipated in 1974 as demand for low-sulfur coal continues to grow.

Joint Mining Ventures—A joint venture with Arch Mineral Corporation to surface mine low-sulfur Wyoming coal in the Medicine Bow area is progressing, although delays were experienced in 1973 as a result of the need to comply with new interpretations of Federal environmental standards. It is now understood that necessary Federal permits are being expedited and that this important project, which is designed to produce three million tons of coal per year, will be in operation during the first quarter of 1975. Much of this coal will be shipped to a major Indiana utility.

In January, 1974, Rocky Mountain Energy and Ideal Basic Industries, Inc. announced their intention to form a joint venture to reactivate, expand and operate an underground coal mine near Rock Springs, Wyoming. The mine, originally opened in 1944, operated until 1953 to furnish coal to the Union Pacific Railroad.

A subsidiary of Ideal, Potash Company of America, which has extensive underground mining experience, will operate the mine for the joint venture. A substantial portion of the low-sulfur coal produced will be purchased by Ideal for use in cement plants in the West. The balance will be sold to other industrial users. The venture plans to begin production in about 12 months and to operate initially at a rate in excess of one million tons per year. Several other joint venture opportunities are being explored actively.

Research and Development Projects—In September a joint venture headed by Continental Oil Company, and in which Rocky Mountain Energy is a partner, dedicated new facilities for upgrading the heat content and purity of gas manufactured from coal. The facilities are located in Scotland adjacent to a coal gasification plant that already was in operation. The research program is designed to demonstrate the commercial feasibility of using the methanation process to upgrade synthetic gas to pipeline quality.

Rocky Mountain Energy also is participating in a joint venture with FMC Corporation and others to develop the new COGAS Process for conversion of coal into synthetic fuel oil and pipeline quality gas. Two pilot plants, one in England and the other at Princeton, New Jersey are scheduled to be operational early in 1974.

The U.S. Interior Department, Bureau of Mines, is conducting tests in Wyoming looking toward the development of the technology and economics of gasifying coal in place underground. Rocky Mountain Energy is contributing coal and the use of its land for a field project. If successful, the process could bypass the need to mine the coal before gasification and would produce clean-burning, low-sulfur fuel.

Right—Hundreds of Union Pacific hopper cars are loaded each week at coal mines in the Hanna Basin of Wyoming. Mining on Rocky Mountain Energy's property increased in 1973 to meet rising demand by utilities for low-sulfur coal.

Bottom—Rocky Mountain Energy is participating in a joint venture in Scotland to test the commercial feasibility of a process for upgrading the heat content and quality of gas derived from coal.

Uranium Search Accelerated; Trona Production Increased

Union Pacific Mining Corporation accelerated its uranium exploration program in 1973 in anticipation of the nation's long range requirements of nuclear power generation. The expansion of trona (natural soda ash) operations near Green River, Wyoming continued during the year despite a severe local shortage of skilled labor and sharply restricted availability of natural gas for fuel.

In addition to uranium and trona, the Mining Corporation's activities include investigation of prospective opportunities in hard rock mineral properties.

Left—Union Pacific Mining's uranium exploration program makes use of data gathered by Earth Resources Technology Satellite I.

Right—Record production of natural soda ash at the FMC Corporation mine and plant near Green River, Wyo. helped to increase trona royalties for the Mining Corporation and freight volume for Union Pacific Railroad.

Uranium Exploration Program Expanded—America's energy shortage is prompting intensified efforts to bring nuclear power plants on-stream as rapidly as possible. Substantial quantities of uranium will be required in the 1975-80 period and the demand will continue to accelerate thereafter.

In June the Mining Corporation entered into a new agreement to expand and extend its joint uranium exploration program with Mono Power Company, a subsidiary of Southern California Edison Company. The Mining Corporation is operator for the program, which is funded by Mono Power. The two firms share in any discoveries. The working arrangement, in effect since 1970, now provides for a commitment by Mono Power of a minimum of $4 million which will fund exploration through 1975 at twice the previous annual rate. An additional six-year, $12 million program is contemplated when the current period expires.

The Mining Corporation utilizes a wide range of exploration concepts and techniques. The basic geologic approach is augmented by an array of space-age tools. Several types of satellite and high altitude photographs are used in evaluating prospective reconnaissance areas. As the search for uranium turns more to the less obvious deposits, company geologists are aided in drilling programs by measurement of low frequency radio waves and subtle electrical currents, and wide-ranging geo-chemical studies to aid in pinpointing the target.

Expansion of Trona Development—Natural soda ash obtained from trona ore is in growing demand for use in the manufacture of glass, soap, alkaline cleaners and other chemical applications. The Mining Corporation's royalty income from trona operations increased about 21 percent in 1973 and the expansion of soda ash production is providing Union Pacific Railroad with steadily increasing freight volume.

The Mining Corporation's reserves of trona are being developed by Stauffer Chemical Company of Wyoming (49 percent owned by Union Pacific Mining Corporation), FMC Corporation and Allied Chemical Corporation. Texas Gulf, Inc. also plans to develop a major soda ash operation in the Green River area.

During frequent curtailments of natural gas supply Stauffer has had to turn to fuel oil, with a resulting sharp rise in production costs and a reduction in income. Several projects have been undertaken to increase Stauffer's natural gas supply, including the construction of its own pipeline to tap new gas wells. For the long term, studies are being made to evaluate the possibility of partially converting the Stauffer plant to the use of coal or coal gas.

New Officers—During 1973 two new officers of the Mining Corporation were named. Eugene A. Lang, 43, was promoted to Vice President—Operations, and Robert E. Swingley, 45, joined the Mining Corporation as Controller.

Big Plants for the Big West

America's energy shortage may cause some dislocations but is expected eventually to quicken the pace of industrial development in the West as processing and manufacturing facilities move closer to reserves of energy resources and follow the population growth in Western states. Most noticeable in the near future will be the growth of natural resources development industries and distribution centers in the Rocky Mountain states and both food processing and light manufacturing industries throughout the West.

Upland Industries is a diversified land development corporation whose activities include acquisition, development, operation, leasing and sale of choice, fully-developed sites for industrial and commercial use in Western business areas served by the efficient rail network of Union Pacific Railroad.

Upland aids business development in the West in another way—by helping to provide properties for residential development in areas such as southwestern Wyoming where the solution to a chronic labor shortage depends in large measure upon the availability of adequate housing.

Industrial Development—Sales of industrial properties were significantly higher than in 1972. The Denver area was particularly active. During 1973 the development of the 326-acre Upland Park at Aurora, Colorado was nearly completed. This is the fifth district developed by Upland in the rapidly growing area and shows promise of receiving the most favorable market acceptance of any industrial park in Upland's history.

Upland completed its 65-acre West Valley Industrial Park south of Seattle, Washington during the year and the development of a new 80-acre industrial park at Rock Springs, Wyoming is well under way.

Upland, as the industrial development agency for Union Pacific Railroad, assisted firms in selecting sites in 1973 for facilities that ultimately will produce estimated annual traffic revenues of more than $23 million. Some examples are:

A $10 million potato processing plant near Hinkle, Oregon.
A $3 million beef processing plant at Boise, Idaho.
A $4.5 million pipe manufacturing plant at McNary, Oregon.
A $5 million plywood plant at Hepner, Oregon.
A $2 million pipe fabrication plant to serve refineries and power plants at Clearfield, Utah.
A $2.5 million facility for the production of cookware, portable kitchen appliances, and humidifiers at Ogden, Utah.
A $3.2 million distribution facility at City of Commerce, California.
A 600,000-square-foot warehouse and a $3 million frozen food cold storage facility at Clearfield, Utah.
A $3.5 million frozen food cold storage building at Ogden, Utah.

The latter two examples are of particular interest in that they represent a growing trend to establish facilities in Utah for storage of frozen food products in transit from Idaho and the West Coast to Eastern markets.

Residential Development—Sales of land for residential development in 1973 included 384 acres in Rock Springs, Wyoming. In addition, with installation of utility lines and sewage treatment facilities, Upland initiated development of acreage in Green River, Wyoming for residential use. Some of this property will be sold immediately for construction of houses. Other portions will be graded and improved for temporary use as mobile home sites required by construction workers for several major projects in the area. Later, the land will be sold to builders for construction of permanent residences.

New Officer—Upland established a Law Department in March, 1973, and Byron D. Strattan, 43, was named Western General Counsel.

Top—Upland Industries develops choice industrial sites in the West to meet the growing demand from businesses such as this large distribution center for Sears, Roebuck and Company at City of Commerce, Calif. *Bottom*—Huge 640,000-square-foot Tupperware manufacturing and distribution facility was completed in 1973 in southern Idaho at Jerome. Both facilities are served by Union Pacific Railroad.

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

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

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

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

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

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

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

Artemus L. Gates, Corporate Director,
Locust Valley, N.Y.

*Elbridge T. Gerry, Chairman of the
Executive Committee;
Partner, Brown Brothers Harriman & Co., New York, N.Y.

William D. Grant, Chairman of the Board and
Chief Executive Officer, BMA Corporation,
Kansas City, Mo.

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

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

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

Morris F. Miller, Chairman and Chief Executive
Officer, Omaha National Corporation, Omaha, Nebr.

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

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

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

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

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

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

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

*Executive Committee

Organization continued on page 20

Board of Directors

F. E. Barnett E. R. Harriman J. H. Evans

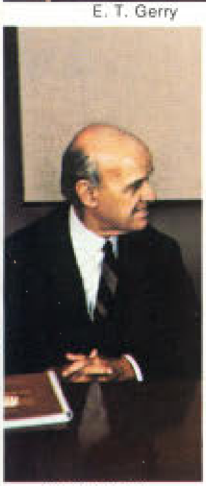
J. C. Kenefick V. F. Taylor, Jr. W. D. Grant

G. S. Eccles R. M. Sutton E. Baldridge

R. A. Lovett H. B. Mitchell

E. T. Gerry M. K. Milliken

M. F. Miller C. C. Brown O. T. Lawler



G. S. Moore

E. H. Bailey R. W. Roth J. B. M. Place

A. L. Gates

ALASKA
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
WASHINGTON
Seattle
Tacoma
Aberdeen
Hoquiam
Yakima
Spokane
Eastport
Portland
Hinkle
Walla Walla
La Grande
MONTANA
Butte
OREGON
IDAHO
Boise–Nampa
Idaho Falls
Twin Falls
Pocatello
McCammon
Granger
Ogden
Rock Springs–Green River
Salt Lake City
Provo
UTAH
Brady Unit and Pipeline
NEVADA
CALIFORNIA
PACIFIC OCEAN
Las Vegas
CALNEV PIPE LINE
Los Angeles
Wilmington Beneficiation Plant
Long Beach
ARIZONA
MEXICO
UNION PACIFIC
UNION PACIFIC CORPORATION
Areas of Petroleum Drilling Activity
Areas of Seismic Activity
Areas of Mineral Activity
Areas of Coal Activity
Union Pacific Railroad Single Track Line
Union Pacific Railroad Double Track Line
Major Intermodal Trailer–Container Terminals
Commercial Property
Industrial Property
Residential Property
Champlin Retail Marketing Area
Product Pipelines
Crude Pipelines
Refineries
Gas Processing Plant
T
Area of Trona Activity


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

Corporate Management

W. S. Cook

W. J. McDonald

W. F. Surette

W. P. Raines

R. N. Little

H. B. Shuttleworth

B. J. Relyea

C. N. Olsen

P. J. Coughlin

Corporate Officers**

Frank E. Barnett, Chairman of the Board and Chief Executive Officer
James H. Evans, President
Elbridge T. Gerry, Chairman of the Executive Committee
William S. Cook, Executive Vice President
William J. McDonald, Senior Vice President —Law
William F. Surette, Vice President—Finance
William P. Raines, Vice President —Corporate Relations
Richard N. Little, Vice President
Harry B. Shuttleworth, Treasurer
Bruce J. Relyea, Controller
Charles N. Olsen, Secretary
Paul J. Coughlin, General Counsel

Several organizational moves were made in 1973 to strengthen the Corporation's senior management. William S. Cook, 51, formerly Vice President— Finance, was elected to the newly- created post of Executive Vice President of the Corporation. William J. McDonald, 46, formerly Vice President and General Counsel, was elected to the new position of Senior Vice President—Law. William F. Surette, 46, formerly with General Electric Company, was elected Vice President—Finance succeeding Mr. Cook. Paul J. Coughlin, 34, formerly Assistant General Counsel, was elected General Counsel of the Corporation.

**Photos of Messrs. Barnett, Evans and Gerry appear on pages 2 and 3.

Officers of Operating Companies

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

CHAMPLIN PETROLEUM COMPANY
Roger S. Plummer, President
Linn F. Adams, Executive Vice President
Earl B. Austin, Vice President—Exploration
Wm. E. Biggerstaff, Vice President—Marketing
D. O. Churchill, Vice President—Domestic Land
Albert L. Diano, Vice President—Finance and Admin.
David Goodwill, Vice President—Production
William W. Houck, Vice President—Land and International
Frank L. Jones, Vice President—Pacific Division
James T. Laws, Vice President—Engineering
Larry L. McDonald, Vice President—Int'l. Prod. Opns.
Frederick M. Otto, Vice President—Refining
Roy K. Russell, Vice President—Industrial Relations
Donald D. Swanson, Vice President and General Manager—Enid
Charles A. Zubieta, Vice President—General Counsel

UPLAND INDUSTRIES CORPORATION
John W. Godfrey, President
Howard F. Hansen, Vice President—Lands
James G. Black, Vice President—Developments
Byron D. Strattan, Western General Counsel
John H. Dyer, Controller

UNION PACIFIC MINING CORPORATION
James C. Wilson, President
Stuart S. Merwin, Vice President—Business Development
Eugene A. Lang, Vice President—Operations
Robert E. Swingley, Controller

ROCKY MOUNTAIN ENERGY COMPANY
John M. Kelly, President
Kenneth R. Oldham, General Counsel & Secretary
Wallace D. Hunt, Controller & Treasurer

Union Pacific Railroad—J. C. Kenefick (foreground) and from left, W. P. Barrett, W. J. Fox, G. L. Farr, C. B. Schaefer, R. F. Pettigrew, J. P. Deasey, C. H. Burnett.

Champlin Petroleum—R. S. Plummer (center standing) and from left, F. M. Otto, A. L. Diano, W. E. Biggerstaff, C. A. Zubieta, W. W. Houck, L. F. Adams, E. B. Austin.

Union Pacific Mining—J. C. Wilson (seated) and from left, S. S. Merwin, E. A. Lang.

Upland Industries—J. W. Godfrey (center seated) and from left, J. G. Black, J. H. Dyer, B. D. Strattan, H. F. Hansen.

Rocky Mountain Energy—J. M. Kelly (right) and from left, K. R. Oldham, W. D. Hunt.

We Care About the Community

Union Pacific is a billion dollar corporation. It is also 29,000 people who believe that they can best fulfill their responsibilities by operating the business at a maximum level of service to its customers and profitability for its stockholders. At the same time, Union Pacific people contribute to the betterment of their communities and of society as a whole both through formal corporate programs and through individual commitment.

Economic Benefits—The economic gains to society in 1973 from the successful operation of the business, which are only one aspect of the total corporate impact, include $487 million in wages, salaries and employee benefits; $51 million in dividends to stockholders; more than $470 million for equipment, materials and supplies that help strengthen the economy in communities where we operate; and more than $70 million in Federal, state and local taxes.

Union Pacific Foundation—Each year the quality of life for thousands of people is enriched by the Union Pacific Foundation through financial aid to educational, medical and human welfare institutions. Concentrating its efforts primarily in the states where Union Pacific operates, the Foundation makes grants for accredited projects that will have wide benefits to the community. During the past six years, the Foundation has given more than $6 million to colleges and universities, hospitals, health research, and charitable and cultural activities. Foundation grants in 1973 included a major gift to the Boy Scouts of America to launch a program for prevention of drug abuse and assistance to children's hospitals; symphony orchestras; the Pacific Northwest Indian Center; the Indian Festival of the Arts; Massachusetts Institute of Technology's energy conservation program which will be shared with other universities; and more than 60 United Way and/or Community Chest campaigns.

In appreciation of a major grant made to the national headquarters of the Boy Scouts of America to help launch its new drug abuse prevention program, the group gave special recognition to the Union Pacific Foundation. Accepting for the Foundation was C. Howard Burnett, Vice President—Executive Dept., Union Pacific Railroad.

Scholarship Programs—For more than half a century Union Pacific Railroad has offered individual scholarships to young men and women who are members of 4-H Clubs and Future Farmers of America in the states it serves. There were 250 winners in 1973 and there have been nearly 12,000 scholarship winners since the beginning of the program in 1921. The award has been received by several children in the same families over the years, and there are many combinations of husband and wife and parents and children who thereby have been helped to develop their maximum potential.

Champlin Petroleum awarded nine university scholarships in 1973 covering studies at five different schools in subjects relevant to its operations—engineering, geology and business.

National Alliance of Businessmen—The National Alliance is an organization in which business, labor and government join in an unique partnership designed to attack the problems of providing jobs and job training in private industry for the chronically unemployed and underemployed. During 1973 Union Pacific Railroad loaned an executive, Arthur L. Young, to the N.A.B. where he served as Vice President.

Environmental Programs—The challenge to America to meet a serious energy shortage has tended recently to overshadow attention to environmental needs. This is not surprising in view of the fact that excessively severe environmental regulations, often lacking adequate scientific basis, helped aggravate some of the fuel shortages. Yet the needs for a healthy environment and for conservation of energy resources have more in common than in conflict. Both demand the avoidance of wasteful practices and realistic approaches toward the careful development of the resources we have.

During the past three years Union Pacific has invested $30 million in various environmental programs. Union Pacific Railroad, for instance, added another waste water treatment plant to its system in 1973 at Hinkle, Oregon and began construction of a treatment plant in Las Vegas, Nevada.

Champlin Petroleum invested $1.7 million during 1972-73 in waste water treatment facilities at the Wilmington Field in California. This investment helps make possible increased production from this oil field and at the same time protects the environment. Champlin also installed a half-million-dollar sulfur plant tail gas conversion unit at Wilmington in 1973. One of the first of its kind, the unit removes sulfur from gas as part of the refining process thereby preventing it from reaching the atmosphere. The resultant material is collected and sold instead of wasted.

Other Community Relations Highlights—In 1973 Union Pacific Railroad launched its second major railroad grade crossing safety campaign on a state-wide basis. The 1973 "Operation Lifesaver" campaign for Nebraska was developed in cooperation with state authorities to focus attention on grade crossing safety through school and public information programs and cooperation with law enforcement agencies of the state.

During 1973 Union Pacific Railroad continued to make gifts of historic railroad equipment to municipalities and museums. In Omaha, Union Station was transferred to the city which is conducting a study for the preservation and cultural use of this architecturally beautiful building.

Top left—When it tore through a paper poster, this bunting-draped flatcar bearing local dignitaries, and UP and labor organization officers dramatically introduced the Railroad's new $1.5 million heavy car repair shop at Pocatello, Idaho.

Top right—During 1973 Arthur L. Young (right) was loaned by Union Pacific Railroad to the National Alliance of Businessmen. He served as Vice President of the volunteer group and was in charge of a national program to aid rehabilitated ex-offenders in finding jobs. In this capacity he worked with Richard C. Gerstenberg (left), Chairman of the Board of General Motors Corporation who also was Chairman of the N.A.B.

Center—The Zooliner is a miniature train used in guided educational tours at the Denver Zoological Gardens. The custom-built replica of a UP diesel was made possible by a grant from the Union Pacific Foundation

Bottom left—Many groups of schoolchildren and their teachers tour the Railroad's Historical Museum in Omaha each year to see examples of railroad memorabilia and the Museum's distinguished collection of Lincolniana

Bottom right—Operator Ed Osborne shows samples which demonstrate the efficiency of a UPRR treatment facility in removing and recovering oil from waste water.

New Highs Achieved in Earnings and Gross Revenues and Sales

Financial Index

Operating results for 1973 were affected favorably by a substantial increase in freight volume, and a significant improvement in gross margin in natural resources as a result of an improved price structure in both retail and wholesale areas of oil and gas operations. Consolidated revenues and sales for 1973 were $1.2 billion, an increase of $129.8 million or 11.9 percent over 1972. Net income for 1973 was $127.1 million compared with $104.5 million in 1972, an increase of 21.6 percent, while earnings per share of common stock in 1973 were $5.61, compared with $4.62 in 1972. Records were established in 1973 for revenues, net income and earnings per share.

The table below reflects the contribution of the respective business areas to gross revenues and sales, and net income.

Revenues and Sales

	1973		1972	
	$000	%	$000	%
Railroad	$ 882,245	72%	$ 779,412	71%
Natural Resources	321,214	26	286,956	26
Land	20,749	2	28,029	3
	$1,224,208	100%	$1,094,397	100%

Net Income

	1973		1972*	
	$000	%	$000	%
Railroad	$ 83,546	66%	$ 77,627	74%
Natural Resources	47,747	37	30,990	30
Land	2,214	2	3,655	3
Corporate Interest Costs and Expenses	(6,400)	(5)	(7,793)	(7)
	$ 127,107	100%	$ 104,479	100%

*Restated on basis comparable with current year.

Consolidated Union Pacific Railroad Company net income for 1973 was $5.9 million or 7.6 percent higher than 1972 while operating income improved 12.3 percent. The continuing increase in freight volume, especially in the movement of wheat, corn and other feed grain, coal and soda ash, together with two rate increases during the year account for the major portion of the increased revenues. The increased volume was responsible for the 12.3 percent improvement in operating income. Although automobile shipments also increased during the year, reduced production at several car manufacturing plants adversely affected fourth quarter volume. In addition to increased expenses directly related to the higher traffic volume, wage and fuel costs and maintenance programs increased significantly. Revenue generated from rate increases granted during the year fell short of matching aggregate increased costs by approximately $30 million. Although diesel fuel prices continue to escalate at an abnormal rate, energy conservation measures combined with rate increases recently granted should offset a portion of the overall impact in 1974.

Income from natural resources activities comprised of petroleum, coal and other mining operations increased 54.1 percent over last year while revenues increased 11.9 percent. Petroleum revenues were greater than the previous year due to improved retail and wholesale prices of refined products which had been subject to gasoline price wars in 1972, and in improved prices for crude oil and natural gas products. Crude oil processing agreements with major oil companies alleviated the adverse effect of the serious crude oil shortage and permitted Champlin to operate its refineries at near capacity. Operating costs were affected favorably by lower dry hole expenses resulting from a higher current year drilling success rate in addition to operating efficiencies instituted during the year. Operating results were affected adversely by pretax reserves totaling $9.8 million established to provide for possible losses in connection with offshore and foreign exploration ventures which, based on drilling results and other circumstances, indicate doubtful value.

Increased development of coal properties combined with increased production of trona from Union Pacific properties resulted in a 33.7 percent increase in royalty income during the year.

Land operations contributed $2.2 million to consolidated income, a decrease of 39.4 percent from 1972. Though industrial and commercial property sales were quite strong throughout the year, residential sales decreased from the 1972 level. Most of the Southern California residential properties have been sold or were in escrow at December 31, 1973 and a pretax provision of $5.4 million was made during the year to provide for possible losses.

Cash Flow—Cash generated from operations amounted to $283 million in 1973, $35 million higher than 1972, reflecting the strong operating performance. These funds were sufficient to finance a significant portion of the Corporation's capital expenditures, substantially reduce corporate debt and increase per share dividend payments to common shareholders.

Capital Expenditures—In order to perpetuate the growth of the Corporation and to meet the nation's demand for adequate transportation, energy and real estate development, a total of $187.5 million was invested in capital improvements, up $37.6 million from last year. The comparison of these expenditures with those of 1972 is as follows:

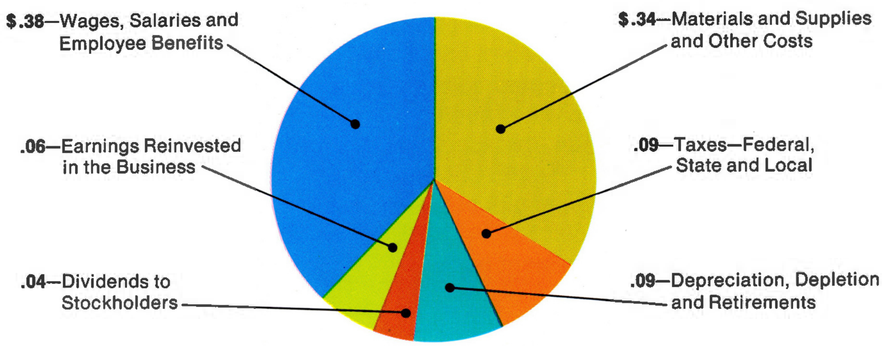
Capital Expenditures by Business Area

	(In Thousands) 1973	1972
Transportation	$139,420	$114,005
Natural Resources	45,377	35,113
Land	2,744	832
	$187,541	$149,950

Transportation capital expenditures in 1973 included $100.9 million for acquisition of locomotives, freight cars and other equipment. During the year 80 locomotives and 2,158 freight cars were purchased and 650 freight cars were built in company shops. Capital expenditures for natural resources operations were primarily for petroleum lease acquisitions, oil and gas development costs, continued refining and marketing improvements and expansion of pipeline capacity. In 1973, Champlin joined with its venture partners in submitting bids aggregating $699.8 million on nine 5,760 acre tracts off the Florida Gulf Coast which were accepted by the Department of Interior effective January 1, 1974. Champlin's commitment amounts to 17 percent of the total or $120.8 million of which $24.2 million was paid in 1973 and the balance in 1974. Further expenditures will be made under the program to evaluate the acquisition and, if feasible, to develop the tracts for the production of oil and gas.

Financing—Corporate indebtedness at December 31, 1973 totaled $494.6 million of which $19.5 million is due currently and $475.1 million matures after one year. In addition, the Corporation had $70 million of unused bank credit lines at year end. The 22.4 percent reduction in debt from the preceding year's balance of $637.7 million was made possible by accelerated cash flow generated from operations which was used to liquidate all commercial paper outstanding at December 31,

Allocation of the 1973 Revenue Dollar



Financial Review—continued

1972 ($100 million), reduce borrowings under credit lines with participating banks ($50 million) and reduce equipment obligations ($25 million). The substantial reduction in debt was offset in part by new financing of $36.9 million in connection with the acquisition of railroad equipment. Total interest expense of $30.7 million was 9.4 percent below year 1972.

Federal Income Taxes—The 1973 provision for Federal income taxes amounted to $70 million of which $33 million was considered currently payable and $37 million deferred to future periods. The effective consolidated Federal income tax rate of 35.5 percent compared with the statutory rate of 48 percent is due principally to the investment tax credit (6.8 percent or $13.4 million) and the tax effect of allowance for depletion (3.7 percent or $7.3 million).

Stockholders' Equity—Stockholders' equity at December 31, 1973 increased $84 million over last year. Book value per common share was $72.54, an increase of $3.25 per share over the value as of December 31, 1972. The 22,705,371 shares of common stock outstanding were held by 72,268 stockholders of record on December 31, 1973, while the 665,500 shares outstanding of 4¾ percent convertible preferred stock, Series A, were held by 2,338 stockholders of record. The $62.8 million principal amount of 4¾ percent convertible debentures outstanding at the close of the year was held by 8,913 owners of record.

Common stock dividends declared were 50 cents per share in the first quarter, 54 cents per share in the second quarter, and 60 cents per share in the last two quarters, bringing the 1973 total to $2.24 per share compared with $2.00 per share in 1972. Aggregate common dividend declarations amounted to $50.6 million or 40 percent of 1973 earnings available for common dividends. Cash dividends paid and cash dividends declared during 1973 are in conformity with guidelines promulgated by the Federal Government. Union Pacific has paid dividends to its common stockholders each year since 1900 without exception. Dividends of $0.475 per share were paid on outstanding preferred stock.

Accountants' Report

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

UNION PACIFIC CORPORATION,
Its Directors and Stockholders:

We have examined the consolidated balance sheet of Union Pacific Corporation and subsidiary companies as of December 31, 1973 and 1972 and the related statements of consolidated income, consolidated retained income and consolidated changes in financial position for the two years ended December 31, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Union Pacific Corporation and subsidiary companies at December 31, 1973 and 1972 and the results of their operations and the changes in their financial position for the two years ended December 31, 1973, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

February 4, 1974

Statement of Consolidated Income

	1973	1972
	(Thousands of Dollars)	
Revenues and Sales:		
Transportation revenues	$ 882,245	$ 779,412
Sales	341,963	314,985
Total	1,224,208	1,094,397
Operating Costs:		
Salaries, wages and employee benefits	467,456	409,897
Crude oil and other petroleum raw materials	153,003	149,592
Material and supplies	141,655	117,521
Depreciation, depletion and retirements	101,952	95,409
State and local taxes	39,770	33,904
Other operating costs	111,821	114,491
Total	1,015,657	920,814
Operating Income	208,551	173,583
Other Income—Net	19,216	20,415
Interest Expense	(30,655)	(33,852)
Income Before Federal Income Taxes	197,112	160,146
Federal Income Taxes (Note 5):		
Current	32,866	21,809
Deferred	37,139	33,858
Total	70,005	55,667
Net Income	$ 127,107	$ 104,479
Earnings Per Share (Note 12):		
Assuming No Dilution	$5.61	$4.62
Assuming Full Dilution	5.37	4.44

Statement of Consolidated Retained Income

	1973	1972
	(Thousands of Dollars)	
Balance at Beginning of Year	$1,283,636	$1,224,563
Net Income for the Year	127,107	104,479
	1,410,743	1,329,042
Dividends Declared:		
4¾% Convertible preferred stock, Series A	322	322
Common stock (per share: $2.24—1973, $2.00—1972)	50,616	45,084
	50,938	45,406
Balance at End of Year (Note 6)	$1,359,805	$1,283,636

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

Consolidated Balance Sheet

Assets

	(Thousands of Dollars) December 31, 1973	December 31, 1972
Current Assets		
Cash (Note 6)	$ 17,845	$ 36,339
Temporary cash investments, at cost, which approximates market	66,930	119,143
Accounts receivable	170,445	148,793
Inventories (Note 1)	86,737	71,769
Other current assets	43,276	18,519
Total Current Assets	385,233	394,563
Investments (Note 2)		
Investments in affiliated companies	45,694	46,535
Other investments, at cost	79,808	79,544
Reserve for investments in securities	(16,272)	(16,274)
Land held for future development, at cost	56,495	69,005
Investments—Net	165,725	178,810
Properties (Notes 3 and 6)		
Transportation property:		
Road	1,018,706	989,453
Equipment	1,418,274	1,363,470
Other transportation property	11,355	11,052
Total transportation property	2,448,335	2,363,975
Oil and gas property	478,311	461,037
Other property	53,540	57,072
Less—reserves for depreciation, depletion, and amortization	(796,883)	(766,549)
Properties—Net	2,183,303	2,115,535
Excess of Investment in Consolidated Subsidiaries Over Equities in Recorded Net Assets	71,915	71,986
Other Assets and Deferred Charges	22,200	47,716
Total Assets	$2,828,376	$2,808,610

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

Liabilities and Stockholders' Equity

	(Thousands of Dollars)	
	December 31, 1973	December 31, 1972
Current Liabilities		
Commercial paper (Note 4)	**$ —**	$ 100,000
Accounts and wages payable	**70,954**	64,749
Accrued liabilities:		
Federal income taxes (Note 5)	**24,657**	11,786
Taxes—other than Federal income taxes	**27,936**	22,921
Interest	**8,617**	8,940
Other accrued liabilities	**74,731**	75,761
Dividends payable	**14,342**	11,995
Long-term debt due within one year	**19,511**	24,568
Other current liabilities	**16,047**	11,547
Total Current Liabilities	**256,795**	332,267
Long-Term Debt Due After One Year (Note 6)	**475,085**	513,116
Deferred Federal Income Taxes (Note 5)	**334,869**	294,044
Casualty and Other Reserves	**82,506**	82,897
Other Liabilities and Deferred Credits	**25,392**	16,624
Stockholders' Equity		
Preferred stock—no par value, 10,000,000 shares authorized; convertible preferred, Series A, $10 stated value, 665,500 shares outstanding (678,480 outstanding in 1972) (Note 11)	**6,655**	6,785
Common stock—$10 par value, 30,000,000 shares authorized and 22,705,371 outstanding (22,555,000 outstanding in 1972) (Notes 8 and 11)	**227,054**	225,550
Paid-in surplus (Note 11)	**60,215**	53,691
Retained income (Note 6)	**1,359,805**	1,283,636
Total Stockholders' Equity	**1,653,729**	1,569,662
Total Liabilities and Stockholders' Equity	**$2,828,376**	$2,808,610

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

Statement of Consolidated Changes in Financial Position

	(Thousands of Dollars) 1973	1972
Source of Funds		
Operations:		
Net Income	**$ 127,107**	$ 104,479
Charges not requiring current outlay of working capital:		
Provision for deferred Federal income taxes (Note 5)	**37,139**	33,858
Depreciation and other non-cash charges (Note 3)	**118,804**	100,051
Total working capital provided by operations	**283,050**	238,388
Proceeds from long-term financing (Note 6)	**36,900**	85,600
Changes in funds segregated for capital expenditures	**28,766**	(27,663)
Other items—net	**30,836**	(11,691)
	379,552	284,634
Application of Funds		
Dividends declared	**50,938**	45,406
Reduction of long-term debt (Note 6)	**74,931**	117,032
Capital expenditures:		
Transportation	**139,420**	114,005
Natural Resources	**45,377**	35,113
Land	**2,744**	832
	313,410	312,388
Net increase (decrease) in working capital	**66,142**	(27,754)
Working capital at beginning of year	**62,296**	90,050
Working capital at end of year	**$ 128,438**	$ 62,296
Components of Increases (Decreases) in Working Capital		
Cash and temporary cash investments	**$ (70,707)**	$ (46,690)
Accounts receivable	**21,652**	17,336
Inventories	**14,968**	(18,269)
Accounts and wages payable	**(6,205)**	(14,151)
Commercial paper	**100,000**	28,000
Other—net	**6,434**	6,020
Net increase (decrease)	**$ 66,142**	$ (27,754)

The accompanying accounting policy disclosures 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 (companies in which the Corporation owns between 20% and 50% of the voting stock) have been reflected in the financial statements at equity. All material intercompany transactions have been eliminated.

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

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

Depletion and Amortization—Champlin Petroleum Company (Champlin) capitalizes intangible drilling and development costs, external geological and geophysical exploration costs applicable to acquired mineral rights and leasehold costs. Nonproducing leasehold costs are not amortized but are charged against income when the leases are deemed worthless for future exploration purpose. Beginning with 1970, Champlin provisions for depletion and amortization of current additions to producing oil properties have been computed on a unit-of-production method by reference to periodic estimates of the remaining reserves of the respective properties. Such costs incurred prior to 1970 are amortized on a straight-line basis over the estimated productive lives of the respective leases. Depletion and amortization of producing gas properties have been computed on the unit-of-production method consistent with practice in prior years. Leasehold and development costs relating to other natural resource operations, though nominal, are capitalized and will be amortized when production commences.

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

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

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

Investment Tax Credit—The Corporation employs the "flow-through" method of accounting for the investment tax credit. Under this method tax credits are recorded as a reduction in the Federal income tax provision to the extent available for financial reporting purposes.

Notes to Financial Statements

1. Inventories

Inventories comprised the following at December 31:

($000)	1973	1972
Materials and supplies	$26,382	$29,383
Real estate developed and held for sale	30,747	25,377
Refined products	17,853	13,097
Raw materials—Crude oil	11,755	3,912
	$86,737	$71,769

2. Investments

As described in the accompanying Accounting Policies, the Corporation's investments in affiliates are carried at equity. Net income for the years ended December 31, 1973 and 1972 includes equity in net losses of affiliates of $451,000 and $324,000, respectively.

Other investments include a $43,001,000 investment in 2,149,319 shares of Illinois Central Industries, Inc. common stock which, by agreement, is to be disposed of prior to August 10, 1982.

3. Depreciation, Depletion and Amortization

Charges to income in accordance with Accounting Policies described on the preceding page were as follows:

($000)	1973	1972
Depreciation, depletion and amortization of oil and gas properties	$19,114	$19,219
Depreciation of other classes of property	68,088	65,540
	$87,202	$84,759
Repairs and replacements of track structure	$54,047	$46,837

4. Commercial Paper

During 1973 and 1972 the average daily amount of commercial paper outstanding amounted to $46,600,000 and $122,000,000, respectively, at an average interest rate (based upon the total interest expense to the average daily amount outstanding) of 6.7% and 4.6%, respectively. The maximum amount outstanding during 1973 and 1972 was $100,000,000 and $125,000,000, respectively.

5. Federal Income Taxes

An analysis of the components of Federal income tax expense and the related reconciliation between the consolidated effective tax rate and statutory rate for the years ended December 31, 1973 and 1972 follows:

($000)	1973	1972
Components of Federal income tax expenses:		
Federal income tax effect on income for the year:		
Current provision	$49,977	$31,420
Deferred provision[a]	33,411	37,586
	83,388	69,006
Less Investment tax credit (under "flow-through" method):		
Usable in current period	17,111	9,611
Carryforward	(3,728)	3,728
	13,383	13,339
Net provision for Federal income taxes:		
Current provision[b]	32,866	21,809
Deferred provision	37,139	33,858
	$70,005	$55,667
Tax rate reconciliation:		
Consolidated effective rate	35.5%	34.8%
Decreases (Increases) in tax rate resulting from:		
Investment tax credit	6.8	8.3
Depletion of natural resources	3.7	3.8
Capital gains	.9	1.3
Dividend exclusions	.7	.8
Other book-tax differences	.4	(1.0)
Statutory tax rate	48.0%	48.0%

(a) Including $37,955,000 in 1973 and $37,341,000 in 1972 resulting from deductions for depreciation and amortization of property in excess of depreciation recorded for book purposes.

(b) Does not include tax benefit of $5,500,000 and $7,600,000 in 1973 and 1972, respectively, resulting from deductions arising from cessation of passenger service in 1971, shown in the 1971 consolidated statement of income as an extraordinary item, net of applicable Federal income taxes.

Federal income tax returns have been examined by the Internal Revenue Service through 1970 for all companies and settlement made through 1941 for the Railroad. The Railroad's 1942 tax refund suit against the United States Government is pending before the U.S. Court of Claims and, in the opinion of tax counsel, has merit. It is also the opinion of tax counsel that irrespective of the tax refund suit the Corporation is adequately accrued for all years since 1941.

6. Long-Term Debt

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

	1973 ($000)	1972 ($000)
Credit Agreements with participating banks, with interest at ¼ % above prime rate and due 1975[a]	$ 50,000	$100,000
Refunding Mortgage Bonds, Series C, 2½ %, due 1991	43,279	43,279
Debenture Bonds, 2⅞ %, due 1976	32,201	32,201
Equipment Obligations, 5⅜ % to 10%, due 1975 to 1988	286,760	269,633
Convertible Debentures, 4¾ %, due 1999[b]	62,845	68,003
	$475,085	$513,116

(a) The credit agreements contain certain covenants, one of which limits payment of cash dividends to income earned subsequent to December 31, 1969. At December 31, 1973, $216,923,000 of retained income was available for dividends. At February 4, 1974 an additional $55,000,000 was outstanding under these agreements. At February 15, 1973, the total amount outstanding at December 31, 1972 under the credit agreements had been repaid.

(b) The debentures, which are redeemable after April 1, 1974, at the option of the Corporation at an initial redemption price of 104.75% of the principal amount, are convertible into common stock until April 1, 1999 at $57.14 per share (subject to adjustment under certain conditions). During 1973 $5,158,000 of debentures were converted into shares of common stock.

In connection with the credit agreements, the Corporation has agreed to maintain compensating balances with participating banks equal to 10% of total funds available and an additional 10% of funds in use. Certain of the equipment obligations are also subject to compensating balance agreements. At December 31, 1973 and 1972 amounts on deposit representing compensating balances totalled $17,000,000 and $25,600,000, respectively, on a basis adjusted for "float." Of these amounts approximately $10,000,000 and $14,700,000, respectively, relate to borrowings and $7,000,000 and $10,900,000, respectively, represent funds maintained to assure future credit availability. During 1973 and 1972, average compensating balances aggregated $12,000,000 and $23,800,000 adjusted for "float", respectively.

Unused funds available to the Corporation under credit lines amounted to $70,000,000 and $165,000,000 at December 31, 1973 and 1972, respectively, of which $75,000,000 supported the commercial paper borrowings at December 31, 1972.

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

Maturities of long-term debt through 1978 are as follows:

Year	($000) Amount
1974	$19,511
1975	68,093
1976	97,794
1977	25,093
1978	20,829

7. Pension Plans

The Corporation and its subsidiaries have funded pension plans covering substantially all salaried employees as well as an unfunded supplemental plan for officers and supervisors. Actuarial reports for the funded plans issued in 1973 indicated that as of December 31, 1972 the market value of pension plan assets was sufficient to cover the actuarially computed value of vested benefits and the unfunded actuarial liability amounted to $50,149,000. Charges to operations include $11,281,000 ($7,720,000 under funded plans and $3,561,000 under the unfunded plan) in 1973 and $9,392,000 ($5,920,000 under funded plans and $3,472,000 under the unfunded plan) in 1972. Such charges applicable to the funded plans include prior service costs which are being amortized over 30 years.

8. Stock Options

The Corporation has a stock option plan under which there were 152,100 and 270,600 shares available for granting of additional options to officers and key employees at December 31, 1973 and 1972, respectively. Options may be qualified or non-qualified and are exercisable for periods of five and ten years, respectively, at 100% of market value at the date of grant. All options become exercisable one year after date of grant. Changes in common stock options outstanding during 1973 and 1972 are summarized as follows:

	1973		1972	
	Shares Under Option	Price Range Per Share	Shares Under Option	Price Range Per Share
Balance January 1	199,170	$34.38 to 62.50	243,170	$34.38 to 62.50
Granted	123,500	53.13 to 76.94	27,500	52.63 to 61.57
Exercised	(57,870)	34.38 to 62.31	(68,800)	34.38 to 49.50
Expired	(43,700)	49.50 to 62.50	(2,700)	34.94
Balance December 31	221,100	$34.38 to 76.94	199,170	$34.38 to 62.50
Exercisable at December 31	97,600	$34.38 to 62.50	171,670	$34.38 to 62.50

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

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

10. Commitments, Contingent Liabilities and Litigation

As of December 31, 1973, the Railroad was contingently liable (a) as guarantor, together with other participating railroads, for principal and interest on certain obligations of various affiliated companies aggregating approximately $57,000,000, of which approximately $5,700,000 is the estimated portion applicable to the Railroad (b) as a participant with other railroads in a service interruption policy with maximum additional premiums of $19,053,000 and (c) for other commitments which in the opinion of management will not have a material adverse effect on the Railroad's operations or financial position.

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

The Railroad and certain of its subsidiary companies are defendants in one suit and the Railroad is a defendant in two other suits filed by REA Express, Inc. against numerous railroads and other defendants. These suits allege, among other things, violations of the Federal anti-trust laws and breach of fiduciary obligations, for which substantial damages are claimed. Independent counsel believes that the Railroad and its subsidiaries have substantial defenses to all the claims made in these suits.

Champlin Petroleum Company and its partners participated in the December 20, 1973 oil and gas lease bidding for tracts off the Gulf Coast of Florida. On January 2, 1974 the United States Government awarded to Champlin and its partners leases on nine tracts at the aggregate cost of $699,761,000. Champlin's commitment, amounting to $120,774,000, was financed primarily by proceeds from bank borrowings. Of this total, $24,155,000 was advanced as a bid deposit in December 1973 and the remaining $96,619,000 was paid on January 2, 1974.

11. Stockholders' Equity

The outstanding preferred stock at December 31, 1973 is 4¾% convertible, Series A, which provides for: cumulative cash dividends at an annual rate of $0.475 per share; redemption after June 1, 1976, at the option of the Corporation at an initial price of $11.00 per share; and convertibility into common shares at the rate of 0.175 of a share of common stock for each preferred share.

Of the unissued common stock, 1,589,470 shares (1,778,541 in 1972) are reserved for issuance upon conversion of the 4¾% convertible debentures and 4¾% convertible preferred stock, Series A, and exercise of stock options.

Paid-in surplus increased by $6,524,000 in 1973 and $2,715,000 in 1972, as a result of issuance of common stock in excess of par value resulting from exercise of stock options ($2,164,000 in 1973 and $2,701,000 in 1972), conversion of 4¾% convertible debentures ($4,253,000 in 1973 and $14,000 in 1972) and conversion of 4¾% convertible preferred stock ($107,000 in 1973).

12. Earnings Per Share

Earnings per share assuming no dilution is based on the weighted average number of common shares outstanding during the stated periods. Earnings per share assuming full dilution is based on the weighted average number of shares of common stock and dilutive common stock options outstanding and assumes conversion of the 4¾% preferred stock and the 4¾% debentures.

Six-Year Financial Review

(Dollar Amounts in Thousands)

	1973	1972	1971	1970	1969 (1)	1968 (1)
Revenues and Sales:						
Transportation Revenues	**$ 882,245**	$ 779,412	$ 700,469	$ 677,848	$ 638,560	$ 602,411
Sales	**341,963**	314,985	276,772	259,497	52,927	46,289
Total	**1,224,208**	1,094,397	977,241	937,345	691,487	648,700
Operating Costs:						
Transportation Operating Expenses	**721,520**	635,126	570,619	562,478	537,706	507,980
Cost of Sales	**294,137**	285,688	255,210	235,520	34,709	27,359
Total	**1,015,657**	920,814	825,829	797,998	572,415	535,339
Other Income—Net	**19,216**	20,415	23,293	16,357	18,287	14,927
Interest Expense	**30,655**	33,852	35,377	39,719	13,876	11,017
Federal Income Taxes:						
Current	**32,866**	21,809	16,499	(3,835)	16,840	14,578
Deferred	**37,139**	33,858	32,685	38,383	22,253	25,389
Net Income:						
Total	**127,107**	104,479	90,144 (2)	81,437	84,390	77,304
Per Share	**$5.61**	$4.62	$4.01 (2)	$3.63	$3.76	$3.45
Dividends Declared on Common Stock:						
Total	**50,616**	45,084	44,903	44,858	44,858	44,858
Per Share	**$2.24**	$2.00	$2.00	$2.00	$2.00	$2.00
At December 31						
Current Assets	**385,233**	394,563	440,696	478,306	357,054	274,957
Current Liabilities	**256,795**	332,267	350,646	377,906	276,329	155,288
Working Capital	**128,438**	62,296	90,050	100,400	80,725	119,669
Total Assets	**2,828,376**	2,808,610	2,779,662	2,796,828	2,335,347	2,134,535
Long-Term Debt:						
Due Within One Year	**19,511**	24,568	34,849	61,785	30,249	24,687
Due After One Year	**475,085**	513,116	544,548	572,325	298,972	218,977
Stockholders' Equity:						
Total	**1,653,729**	1,569,662	1,507,033	1,518,510	1,481,931	1,442,399
Per Common Share	**$72.54**	$69.29	$66.76	$67.70	$66.07	$64.31
For the Year						
Capital Expenditures	**187,541**	149,950	178,686	224,560	178,336	110,029
Operating Cash Flow	**283,050**	248,020	221,368	218,371	173,048	164,771
Average Number of Employees	**29,350**	29,732	30,902	32,097	31,416	32,662
Total Salaries, Wages and Employee Benefits	**486,534**	431,309	389,432	370,019	329,393	313,409

(1) Excludes the operating results of Champlin Petroleum Company which was purchased as of January 1, 1970.
(2) Before extraordinary item.

Recognizing Employees and Their Individual Needs

To be successful a company requires many strengths but none is so indispensable as dedicated, motivated employees. At Union Pacific special efforts are made to recognize human values, individual worth and the desire for self-improvement. We have many reasons to be proud of the people of Union Pacific. The prevalent attitude of employees throughout the Corporation is perhaps best expressed by the "We Can Handle It" theme of the Railroad's advertising program. As an employee stated in one of the ads, "Anybody can buy a box car—it's what *people* do with the box car that counts."

Through training, education and special programs, management seeks to offer to the individual many opportunities for professional and personal growth.

During 1973 Union Pacific Corporation and its consolidated subsidiaries employed an average of 29,350 people, and paid them $487 million in salaries, wages and benefits. This amounted to an average of $16,560 per employee.

Top—Champlin executives in 1973 attended a variety of seminars on finance and other management topics.

Bottom—Upland Industries provides special training in the engineering principles required for land development. In a session at Upland's offices in Omaha are (from left): Mike Brenneman, construction engineer; Chuck Burris, assistant director of engineering; Jim Cross, draftsman; and Jeane Yang, draftsman-engineer.

Employee Relations and Development—Union Pacific Railroad conducted a comprehensive survey of employee opinion in 1972. The survey covered such things as company policy, working conditions, training, supervision and individual jobs. Employees pointed out areas where operations could be improved, expressed interest in additional training and development and indicated their pride in the company and in the importance of their individual functions.

The survey gave senior executives and middle management of the Railroad increased awareness of what their people are thinking. Among the many changes and new programs instituted were a substantial increase in professional development and technical training programs, a personal counseling program, and more frequent meetings between local operating management and employee representatives.

Hundreds of employees of the Railroad and of Champlin are being given individual public recognition by being featured in advertising and employee publications. During 1973 Upland Industries held a special exhibit of art produced by its employees.

Professional development programs are tailored to the level of individual responsibility. Several executives of the Railroad and Union Pacific Mining attended three-month advanced management programs at the Harvard Graduate School of Business Administration during 1973. Executives and managers of the Railroad, Champlin, Upland and the Mining Corporation participated in seminars ranging from general management and financial topics to specialized interests such as purchasing and computer technology. The Railroad also conducted seminars for supervisors on traffic practices, employee performance appraisal and basic supervision.

During 1973 women members of the headquarters staff of Union Pacific Mining at Denver participated in establishing a new organization, "Women in Mining." The membership is drawn from the many mining firms in Denver. Programs have included tours of mines and lectures by experts in the technical aspects of mining.

Technical Training and Education—The Railroad operates a comprehensive apprentice on-the-job training program for all Mechanical Department crafts ranging from three to four years in duration. When an apprentice satisfactorily completes his training he may then qualify for classification as a journeyman in his craft. Other specialized training included programs for locomotive engineers, switchmen, signalmen, yard clerks and rate clerks.

More than 450 employees across the country received tuition aid in 1973 to help them pursue college degrees or to acquire new job-related skills.

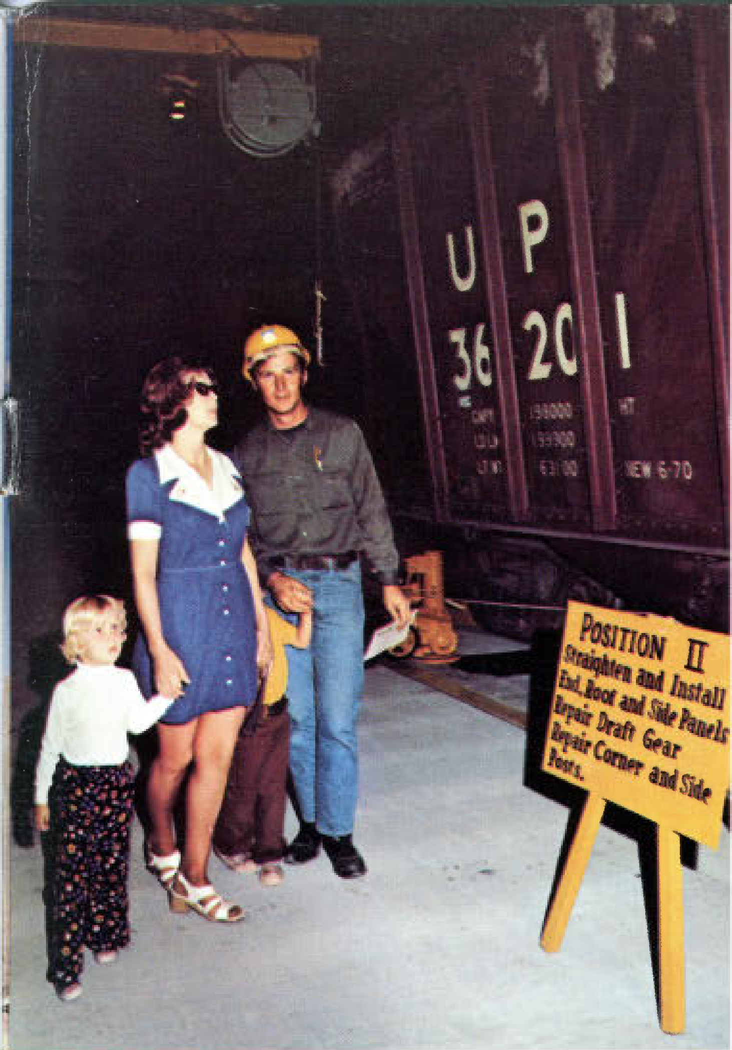
Twenty-four promising young people were awarded college scholarships under a new competitive program for the sons and daughters of Union Pacific Railroad employees. The proud parents of the winners average 25 years of service with the Railroad.

Opposite page: *Top Left*—Foster Kunz, a carman at the Railroad's repair facilities in Pocatello, Idaho brought his family to tour the new shops completed in 1973. More than 1,800 people attended this open house in September to see "the place where Dad works."

Top right—A team of Union Pacific instructors begins a series of training sessions in which more than 1,400 employees will learn to handle data for the Railroad's COIN II advanced computer information system. COIN II is used in monitoring many phases of modern railroad operations.

Bottom left—Kansas City employee safety campaign produced this reminder displayed prominently in Union Pacific's Armstrong yards.

Bottom right—David Koerwitz (left) and Robert Partridge were among the 24 employees in the Railroad's management training program in 1973.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NEW 6-70
POSITION II
Straighten and Install
End, Roof and Side Panels
Repair Draft Gear
Repair Corner and Side
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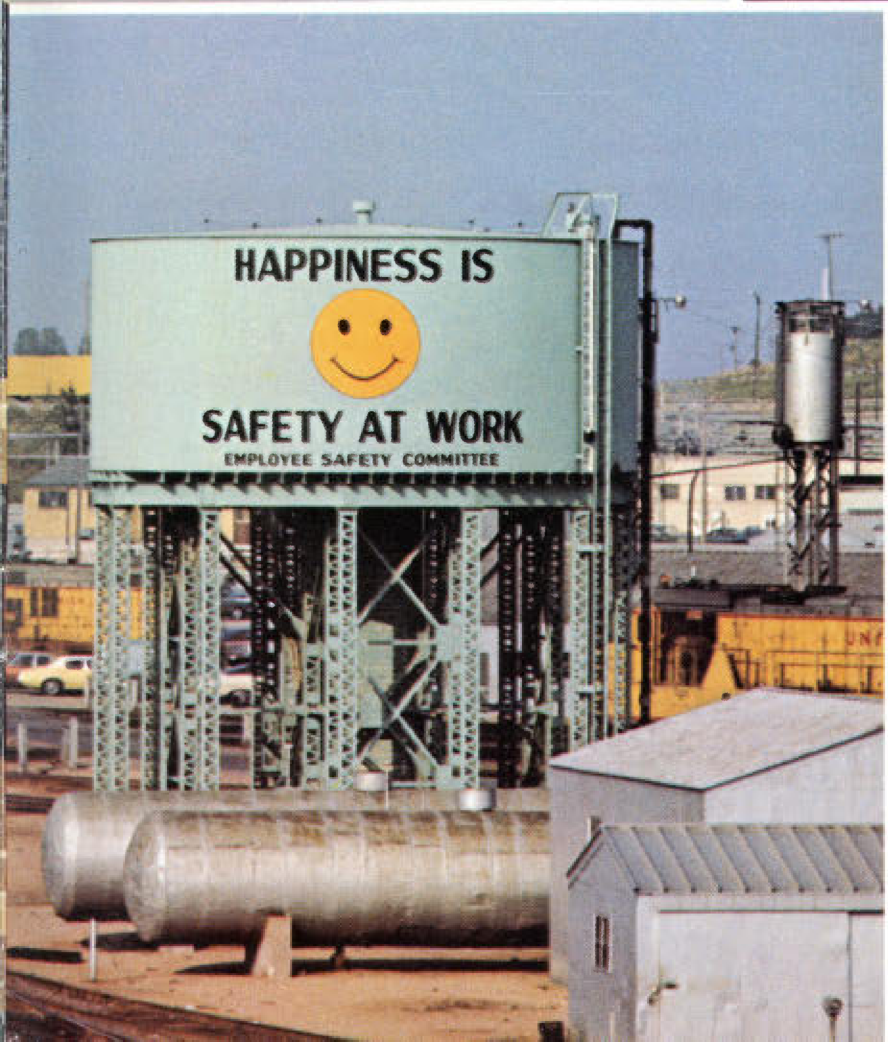
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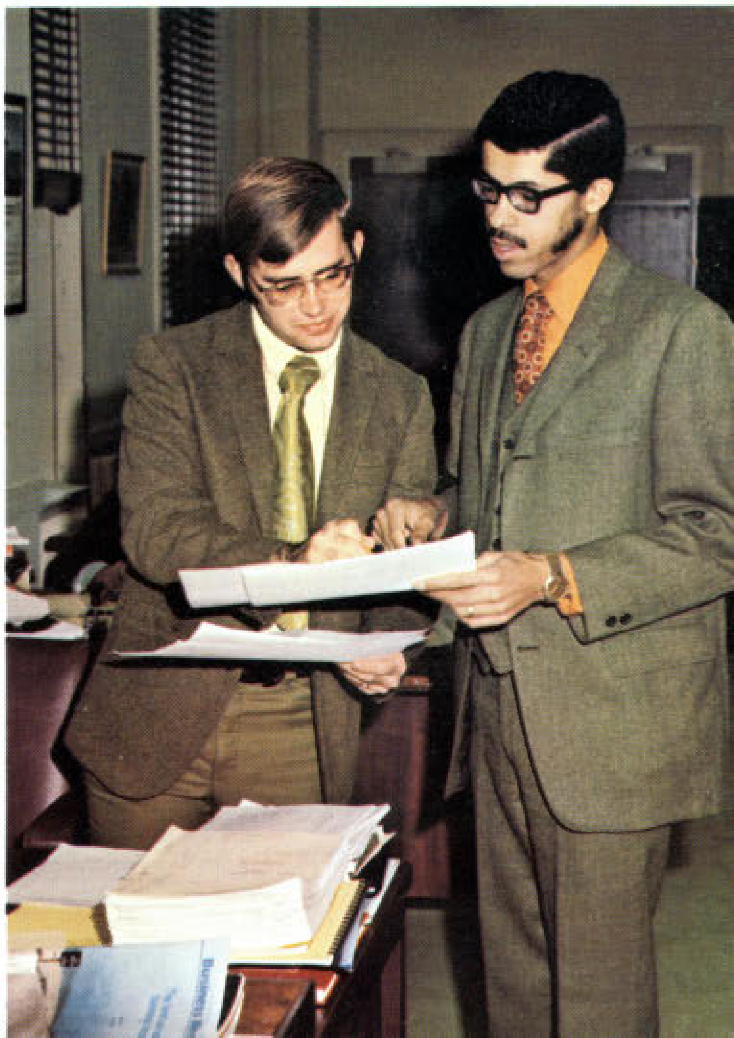

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