UNION PACIFIC CORPORATION
1974 ANNUAL REPORT


UNION PACIFIC
3161
3167
We can
handle it.
KEEP OFF
CUPOLA
P
UNION PACIFIC
There's no Romance
in Taking a Chance
UP 25534

1974 Annual Report

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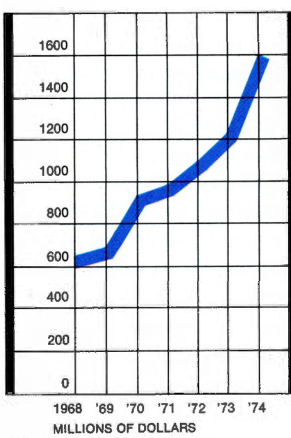
Sketches of Directors and Corporate Management are by Roland Des Combes.

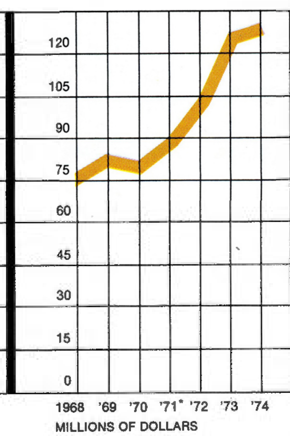
Highlights

Highlights	1974	1973
Gross Revenues and Sales	**$1,599,416,000**	$1,224,208,000
Net Income	**$ 130,373,000***	$ 127,107,000
Per Share of Common Stock:		
Net Income	**$5.69**	$5.61
Dividends Declared	**$2.60**	$2.24
Operating Cash Flow	**$ 300,458,000**	$ 283,050,000
Capital Expenditures	**$ 404,013,000**	$ 187,541,000
Working Capital (end of year)	**$ 63,863,000**	$ 128,438,000
Stockholders' Equity (end of year)	**$1,738,801,000**	$1,653,729,000
Stockholders of Record—Common and Preferred (end of year)	**72,809**	74,606
Average Number of Employees	**30,169**	29,350

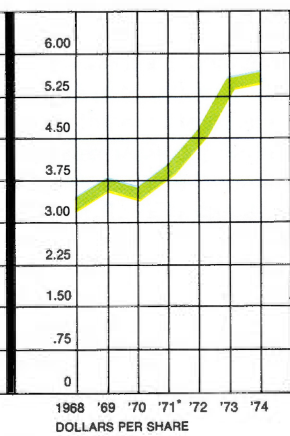
*After the 1974 net income effect of provision for offshore Florida lease acquisition costs ($31.2 million or $1.37 a share) and adoption of LIFO ($7.5 million or $.33 a share).



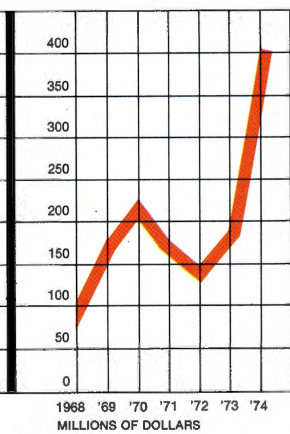
Revenues and Sales



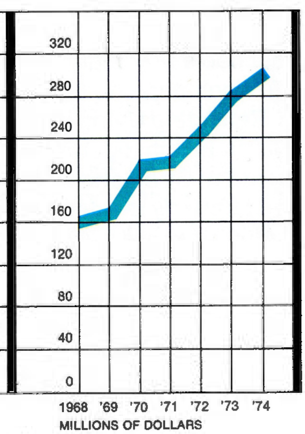
Net Income
*Before extraordinary item



Earnings per Share
*Before extraordinary item



Capital Expenditures



Operating Cash Flow

Opposite Page—Union Pacific freight train heading westbound to Ogden crosses over another train heading eastbound in Utah near Wyoming border.

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

To Our Stockholders:

Union Pacific Corporation turned in a strong performance in 1974 in the face of a vexing combination of recession and inflation.

The Corporation achieved the highest level of earnings in its history, $130.4 million or $5.69 per share compared to $127.1 million or $5.61 per share in 1973. These earnings were achieved despite a $38.7 million or $1.70 per share reduction in 1974 net income resulting from both the establishment of a reserve for possible losses related to nine offshore Florida oil leases ($1.37 per share) and the adoption of the Last-In, First-Out (LIFO) method of inventory valuation for crude oil and refined petroleum products ($.33 per share).

Gross revenues and sales also reached a new high of $1.6 billion in 1974 compared to $1.2 billion in 1973.

Reflecting Union Pacific's increased earnings from operations in 1974, your Board of Directors on August 29 raised the quarterly dividend from 60 to 70 cents per share, a 17 percent increase.

Both of the Corporation's major businesses, transportation and natural resources, contributed record revenues and sales for the year.

The Railroad had a particularly good year with revenues exceeding $1 billion for the first time in its history. Improved freight rates and prudent control of costs enabled Union Pacific Railroad to hold its operating ratio (operating expenses as a percentage of revenues) below 74 percent while maintaining its physical condition to the highest standards in the industry.

Despite a decline of just over three percent in overall carloadings the Railroad increased its revenue ton-miles slightly during 1974, reflecting a greater proportion of high-density traffic such as coal and soda ash.

Champlin Petroleum, buttressed by price improvements and efficient utilization of its refinery capacity, was a major contributor to earnings.

Champlin continued its vigorous program of exploration and development, with the risks attendant on the search for new petroleum reserves today.

It is still too early to determine the final outcome of Champlin's participation in the offshore Florida exploration effort, although there have been four unsuccessful shallow wells drilled to the Cretaceous formations. Because exploratory drilling results to date indicated reduced potential value of Champlin's investment in these leases and in the interest of maintaining our traditionally conservative balance sheet, the Board of Directors approved on January 30, 1975 a $60-million fourth quarter 1974 before tax reserve for possible losses. Exploration of the offshore Florida leases will continue with further testing of the Cretaceous formations and drilling in the previously untested deep Jurassic zones.

The development of the Brady Field in Wyoming continues to be very encouraging. To date every one of the 19 wells drilled has been successful. There have been *no* dry holes. In the British North Sea the Halibut Group, in which Champlin holds a 22.5 percent interest, drilled the fifth consecutive commercially successful well in the Thistle Field.

Champlin also took significant steps in 1974 to increase its production of crude oil. "Project Big Water," a major secondary-recovery program under way at the Wilmington Field in California, has begun to achieve a turnaround in the production rate from this mature field. This program has boosted the rate of output by nearly 20 percent since early 1974 and further increases are expected in 1975. Output from Brady Field was also stepped up, and Champlin's share of Brady revenues passed the $5 million mark in 1974. Revenues from Brady will increase substantially in 1975, when production from the biggest reserve becomes available after a gas processing plant now under construction comes on-stream in mid-year.

In 1974, Rocky Mountain Energy Company increased its earnings as it accelerated development of Union Pacific's large reserves of predominantly low-sulfur Western coal. Production from land in which Rocky Mountain Energy has an interest exceeded five million tons during the year. Substantial increases are expected in 1975 with the recent start-up of the 3.3 million ton per year Medicine Bow joint venture mine at Hanna, Wyoming.

British North Sea

Champlin has a 22.5 percent interest in the Halibut Group which in 1973 confirmed the Thistle Field, northeast of Scotland, as a major commercial oil field. Consequently we have given and continue to give very intensive attention to the proposed new British policies concerning taxation of and possible state participation in the development of the North Sea oil fields. These proposals must be weighed against the background of runaway inflation that is rapidly accelerating costs of all North Sea developments.

We have given careful study to this situation, including many discussions with key leaders in the British Government and with other informed observers, and continue to evaluate all possible options regarding this valuable asset.

At this time we remain hopeful that the development of the North Sea oil fields will be encouraged to proceed promptly in the best interests of the British people and under conditions that will offer a fair return on private investment.

Rock Island Status

The 1964 exchange offer with Chicago, Rock Island & Pacific Railroad common stockholders terminated on August 23, 1974 in accordance with its terms. The shares of Rock Island common stock originally deposited with the exchange agent are being returned to the holders of Union Pacific certificates of deposit.

On December 3, 1974, the Interstate Commerce Commission issued its 300-page Report and Order approving the merger, subject to various conditions, of the Rock Island and Union Pacific Railroads and the sale of the southern portion of the Rock Island to the Southern Pacific Railroad. Because of the complexity and great length of the Report, Union Pacific requested an extension of time for the filing of petitions for reconsideration or modification of the Report and Order. The ICC granted an extension until March 4, 1975 for the filing of such material, and stayed the effective date of its Order to March 14, 1975. To permit completion and evaluation of the various studies which have been undertaken to assess the economic and financial impact of the ICC's decisions, the Railroad has asked for a further extension until May 2, 1975 for the filing of petitions and has requested that the Order be stayed until 30 days after the Commission acts on such petitions.

Rock Island management was earlier informed that, in the light of the changed circumstances of the two railroads, the merger exchange ratio would have to be reevaluated. It is possible that further litigation will follow the final decision by the ICC and, thus, neither the ultimate resolution of this matter nor the effective date can be forecast.

New Directors

James D. Robinson, III, Executive Vice President of American Express Company, and William S. Cook, Executive Vice President of Union Pacific Corporation, were elected to the Union Pacific Board of Directors on August 29. At the same time, Edd H. Bailey, former President of the Railroad, and Reginald M. Sutton, former Executive Vice President of the Corporation, retired from the Board of Directors after long and distinguished service to the company.

W. Dale Clark

We note with profound sorrow the death on January 28, 1975 of W. Dale Clark, former Chairman of the Omaha National Bank, who had retired as a Union Pacific Director in 1972 after more than 31 years of outstanding service. Mr. Clark's wise counsel over the years was of enormous value to management and to his fellow directors.

Outlook

While the long-term outlook for the Corporation continues to be favorable, prospects for 1975 are difficult to appraise in view of the many uncertainties affecting the general economy. The nation is clearly experiencing a recession, the magnitude of which it is too early to foresee. Moreover, the threat of punitive tax legislation continues to hang over our oil, gas, and coal businesses.

Economic dislocation is already affecting all segments of our operations. Railroad traffic began a decline in late 1974 which is continuing unabated in 1975. The January 30th action of the Interstate Commerce Commission denying a request for a clearly justified rate increase will adversely affect our 1975 earnings. With higher labor costs a certainty in 1975 and with inflation continuing to increase the cost of virtually everything the railroads buy, prompt and substantial rate relief is more imperative than ever.

In other areas of our business, there is a weakening in the market for gasoline and distillates, and industrial land development continues to be hampered by soaring construction costs.

On the positive side, the Railroad will benefit this year from increased coal and soda ash traffic and from a higher share of the substantial automobile traffic that moves by rail. Champlin and Rocky Mountain Energy will benefit from increasing production of crude oil, coal and trona.

Looking further ahead, we believe that our efficient, strategically located transportation system, our strong, growing integrated petroleum operation, and our extensive reserves of coal and other natural resources place your company in an excellent position to take advantage of emerging opportunities as and when the economy turns upward again.

We want to express our thanks to the 30,000 Union Pacific people whose dedication and hard work played such a vital role in our accomplishments in 1974. On behalf of the Board of Directors, all of us at Union Pacific express our appreciation to our stockholders for your continuing confidence and support.

Our customers, dealers and distributors deserve our thanks for the privilege of serving them. We look forward to the opportunity of serving them in the uncertain and challenging days ahead.

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 14, 1975

Board of Directors and Corporate Officers

Directors

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

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

*__James H. Evans,__ President, New York, N.Y.

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

*__Courtney C. Brown,__ Chairman, American Assembly, Inc., educational forum and publications, Columbia University, New York, N.Y.

William S. Cook, Executive Vice President, New York, N.Y.

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

Artemus L. Gates, Corporate Director of several companies, Locust Valley, N.Y.

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

William D. Grant, Chairman of the Board and Chief Executive Officer, BMA Corporation, insurance, 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., bankers, New York, N.Y.

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

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

Hamilton B. Mitchell, Chairman and Chief Executive Officer, Dun & Bradstreet Companies, Inc., financial information, communications, transportation and marketing services, New York, N.Y.

*__George S. Moore,__ Director, White Weld & Co., Incorporated and White Weld & Co. Limited, investment bankers, New York, N.Y.

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

James D. Robinson, III, Executive Vice President, American Express Company, financial and travel services, New York, N.Y.

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

Vernon F. Taylor, Jr., President, Westhoma Oil Company, oil, gas and mineral exploration, Denver, Colo.

*Executive Committee

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, Jr., General Counsel

**Sketches of Messrs. Barnett, Evans, Gerry and Cook are shown at left, since they also are directors.

Profile of One of the World's Most Efficient Transportation Systems

Union Pacific Railroad serves the heartland of the American West with an efficient transportation system which covers one of the fastest-growing regions in the nation like a giant double-ended funnel, collecting and delivering freight at both ends as well as along the line. This 9,500-mile system moves a diversified array of farm products, minerals, and manufactured goods by linking key Missouri River gateways with the greatest number of major West Coast ports served by any American railroad.

Union Pacific Railroad is modern, efficient, and strategically laid out for future growth. It has a streamlined route structure, and its average haul is the longest in the industry, almost twice the average of all Class I railroads. Its physical condition is maintained to the highest standards in the industry.

Over the last decade, the Railroad has spent $1.5 billion on its equipment and facilities. Its capital investment reached $74,364 per rail employee for 1974, compared to 1973's figure of $71,837 per rail employee. Union Pacific's fleet of more than 1,400 diesel locomotives and 69,000 freight train cars is modern and diversified to meet a wide range of customer needs. High-speed servicing and repair facilities all over the West keep this fleet moving reliably on schedule. For example, one key facility on the main line at Rawlins, Wyoming, is like a giant pit stop. In less than 30 minutes, its service force can fully inspect a 150-car train and refuel its locomotives with 7,500 gallons of diesel oil.

Linking the Railroad's operations is a 4,500-mile microwave network feeding Omaha's computer system with minute-by-minute data, which facilitates control of train operations, car distribution, locomotive allocation, and many other complex functions.

This is a report on how Union Pacific Railroad served America in 1974.

Union Pacific freight train heads west along one of three tracks on the Railroad's main line at Dale, Wyo. between Cheyenne and Laramie.

John C. Kenefick
President

A Strong Performance in 1974

Freight Operations—Union Pacific Railroad surpassed $1 billion in consolidated revenues for the first time in its history, achieving an all-time high of $1,000,266,000, up more than 13 percent over 1973. In spite of unprecedented increases in material and labor costs, the Railroad held its operating ratio (operating expenses as a percent of revenues) to 73.99. This was only slightly higher than 1973's ratio of 73.93 and was one of the lowest among all major railroads in the country.

Despite a 3.1 percent decline in overall carloadings, the Railroad increased its revenue ton-miles to 55.5 billion in 1974, compared to 55.3 billion in 1973. This reflected a greater proportion of high-density traffic such as coal and soda ash. Carloadings of these two commodities increased 21 and 11 percent respectively.

Shipments of mined phosphate also increased while shipments of autos, auto parts, lumber, and grain fell. Union Pacific's commodity mix, one of the most diversified in the industry, is shown in the table on page 8.

Inflation affected every segment of Union Pacific's operations in 1974. Total operating expenses increased $104 million over 1973, with almost $89 million of that amount due to spiralling prices and labor costs. Increases in wages and higher retirement benefit costs amounted to $36 million. Material costs were also sharply up. For example, the average cost of a gallon of diesel fuel was 26 cents in 1974, a 95 percent increase over 1973, which resulted in additional fuel costs of $37 million. The cost of cross ties rose $2.3 million or 51 percent, new rail rose $3.5 million or 26 percent, and freight car wheels rose $1 million or 41 percent.

The nation's railroads will clearly require prompt rate relief to alleviate, at least in part, the industry's cost-price squeeze in the difficult year ahead.

Marketing Strategy—Long hauls and a minimum of terminal handling are key factors in railroad profits. Union Pacific gears its marketing effort to maximize this kind of traffic. In 1974, the Railroad added to its schedule of unit coal trains. All of these unit coal trains are run-through trains that operate over the lines of more than one railroad without changing locomotives. During 1974, the Railroad's unit trains carried much-needed coal, iron ore and other commodities to various markets on more than 1,200 round trips totalling nearly two million train-miles.

The Railroad also added trainload service to move high volumes of mined phosphate, fertilizer and soda ash

A private microwave network extending 4,500 miles along the right of way links the Railroad's communications and control systems (top left—microwave tower in Nebr.). Data is transmitted instantly to the Computer Center in Omaha (top right). Through electronic monitors, the data is used to make operational decisions, including control of train operations from the Transportation Dept. (bottom left and right).

Left—A 3,000-HP road freight locomotive, part of Union Pacific's 1974 order, is shown under construction at the General Motors Electro-Motive Division plant in La Grange, Ill. General Electric is also a major supplier of locomotives for the Railroad.

Right—In 1974 shipments from Idaho of mined phosphate for fertilizer added substantial traffic for U.P.

Railroad—continued

from Idaho and Wyoming directly to bulk handling facilities at Long Beach Harbor, California, thus providing better service to its customers involved in export markets. Mined phosphate, an essential ingredient in fertilizer production, is in short supply worldwide, and Union Pacific enjoys the advantage of serving southeastern Idaho, which contains 44 percent of total known phosphate reserves in the Western Hemisphere.

Building a Stronger System For Tomorrow

Capital Improvements—The Railroad's capital investment in new and improved transportation equipment, right of way, and facilities reached $195.8-million in 1974, an increase of $56 million or 40 percent over 1973. During the last 10 years, Union Pacific has spent $1.5 billion on new locomotives, freight cars, repair centers, intermodal trailer and container facilities, the most advanced computer, communications and control systems, and other capital programs.

This capital improvement program has provided Union Pacific with one of the youngest fleets in the nation, which enables it to offer attractive and dependable schedules to a wide range of shippers over a right of way designed to handle high speeds and heavy loads.

Freight Traffic by Commodities in 1974:	Tons Carried	Percent Increase (Decrease)	Percent of Total
Farm Products	15,740,118	(12.5)	17.3
Coal	12,585,425	19.8	13.8
Food and Kindred Products	9,986,943	1.1	10.9
Lumber, Wood Products, Furniture and Fixtures	8,951,345	(13.5)	9.8
Soda Ash and Other Chemicals and Allied Products	8,832,641	3.5	9.7
Non-Metallic Ores	9,092,268	(4.1)	10.0
Iron and Metallic Ores	5,308,022	(3.4)	5.8
Stone, Clay and Glass Products	4,687,203	(2.0)	5.1
Primary Metal Products	3,071,051	(.3)	3.4
Petroleum Products and Coke	2,604,441	15.0	2.8
Pulp, Paper and Allied Products	2,154,929	4.7	2.4
Motor Vehicles and Parts	1,269,946	(16.7)	1.4
Miscellaneous	6,917,886	15.6	7.6
	91,202,218	.8	100.0

Expenditures for Equipment—In 1974, Union Pacific's capital expenditures for new transportation equipment increased 42 percent to nearly $144-million. Of that amount, nearly $52-million was spent to acquire 80 new 3,000-HP and 40 new 2,000-HP diesel locomotives and attendant components. Acquisition of 3,377 freight cars, an increase of more than 20 percent over last year, accounted for $86 million.

Union Pacific's extensive capital expenditure program has placed the Railroad in a position to consider some curtailment or postponement of equipment purchases during the current period of declining shipments while continuing to provide reliable service to its customers.

Improvements in Right of Way—Union Pacific's construction program in 1974 featured two major projects. A $14 million capital program on the 290-mile Kansas City to North Platte, Nebraska line has upgraded the Railroad's link with the industrialized Southeast. Work began on a two-year, $6 million project to enlarge the mile-long bore of the Aspen Tunnel, near Evanston, Wyoming, to accommodate today's wider and higher loads.

The mineral growth of the West presents a new profile of opportunity for Union Pacific. In 1974, the Railroad constructed an important spur line to the recently opened Medicine Bow surface coal mine at Hanna, Wyoming, a Rocky Mountain Energy Company joint venture with Arch

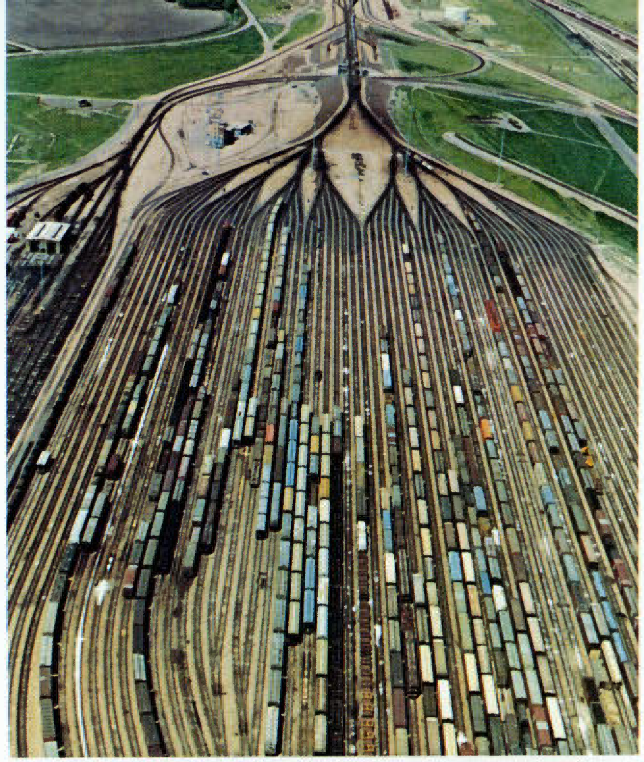
Mineral Corporation. Additional industrial trackage is planned in 1975 to serve three new coal mining operations in southwestern Wyoming. The Green River, Wyoming yard, which serves this area, will be expanded in 1975 to handle increasing freight traffic.

The Railroad is also installing centralized traffic control systems over 112 miles of line on two sections in Wyoming and a section in Utah under a $6 million program, primarily to expedite growing traffic of coal, soda ash and other commodities.

New Repair Facilities and Centralized Maintenance—Up-to-date maintenance means reliable movement, essential to better customer service and higher profits. Four years ago, Union Pacific embarked upon one of the most extensive repair facility construction programs in the industry. Since 1971, the Railroad has spent or authorized $41 million for 36 new or improved freight car and locomotive repair and servicing facilities. During 1974, mechanized car repair facilities, also known as "one-spot" shops, were opened in Green River, Wyoming, Pocatello, Idaho, and North Platte, Nebraska. New repair capabilities were also added to shops in Salt Lake City, North Platte, and Omaha.

In addition, the Railroad has improved its overall repair efficiency by centralizing many maintenance functions and by standardizing many equipment maintenance practices, thus achieving improvements in quality, inventory control, costs, and all-important equipment utilization. Centralizing maintenance helped to improve the Railroad's already low bad-order ratio from 2.7 percent at the end of 1973 to 2.4 percent at the end of 1974.

All locomotive component repairs are now handled at Omaha and Salt Lake City. Some freight car part repairs have been centralized at Omaha, Pocatello, and Albina, near Portland, Oregon.



Top—Traffic is reclassified speedily in Union Pacific's yards at North Platte, Nebr. The North Platte complex encompasses two classification yards, 106 tracks and a major diesel repair and servicing facility.

Bottom—Union Pacific is helping to underwrite the cost of 10,000 boxcars which will form the industry's Railbox equipment pool. These cars may be used between any U.S. destinations rather than being returned to the parent line as is required of the cars owned by individual railroads.

Maintenance Programs—The Railroad spent a record $110.9 million on maintenance of equipment in 1974, an increase of nearly 13 percent or $12.8-million over 1973. This program helped to maximize the availability of Union Pacific's rolling stock to its customers.

Union Pacific also continued to upgrade its traditionally well-maintained track and roadbed system in 1974 with a $51 million maintenance-of-way program, the largest in the last quarter-century. The Railroad installed 540 miles of rail, including 300 miles of continuous-welded rail on heavy-tonnage mainline track. This brings the Railroad's total of all-welded rail to 1,340 miles.

The Railroad replaced 699,655 cross ties and resurfaced and reballasted 1,602 miles of track. Nearly 10 percent of the renewal and ballasting work and 42 miles of heavy-duty track replacement were accomplished on Union Pacific's major link to growing Canadian markets.

Progress in Technology—The initial phase of the Railroad's second generation COIN (**C**omplete **O**perating **IN**formation) real-time computer system, COIN II, is fully operational from Los Angeles to Green River, Wyoming, and from Green River to Pocatello. When completely implemented in 1976, COIN II will provide much more comprehensive information in a shorter time-frame to improve train operations, car distribution, and locomotive maintenance—all designed to better the Railroad's service to shippers.

Looking beyond 1975, the Railroad is continuing engineering and economic studies to determine the feasibility of electrification of its main line from North Platte, Nebraska to Salt Lake City, Utah and Pocatello, Idaho. Electrical power can be used more efficiently by railroads than by any other method of transportation, and low-sulfur coal to fuel electric power plants is readily available in the area served by Union Pacific Railroad.

Construction of the new gas processing plant at the Brady Field in Sweetwater County, Wyo. is on schedule. Oil recovery from this plant, expected to go on-stream in August, 1975, will be transported in Champlin's pipeline.

An Integrated Petroleum Company Leading the Development of Union Pacific's Natural Resources

Champlin and its partners in the Halibut Group continued exploratory drilling operations in the British North Sea during 1974 to further delineate the Thistle Field.

Champlin Petroleum Company, Union Pacific's largest natural resource business, is well-positioned for long-term profitable growth. Champlin is a fully integrated oil and gas company actively engaged in international and domestic exploration, development and production of crude oil and natural gas, and in refining, transporting, and marketing petroleum products in the United States.

Champlin's exploration program has achieved major commercial discoveries in the Brady Field, Wyoming and in the Thistle Field, British North Sea. Other areas of significant activity are offshore Florida, Peru, The Philippines, and the Rocky Mountains.

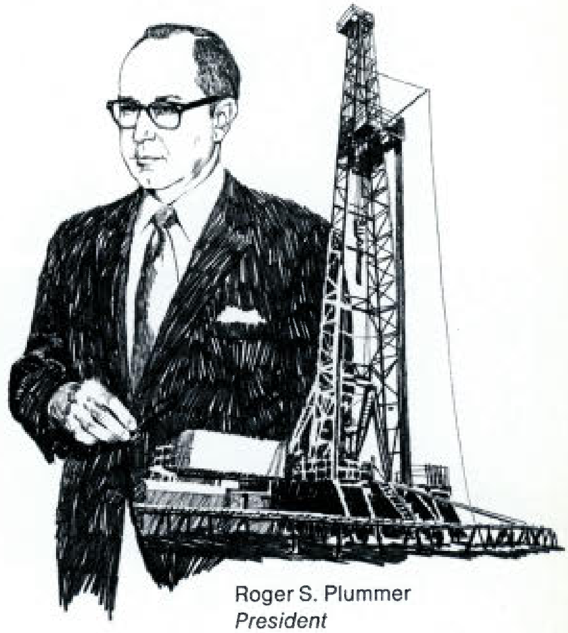
Champlin produced crude oil and condensate at an average rate of nearly 42,000 barrels a day in 1974, and this rate will increase in 1975 with growing production from Brady and from a very successful secondary-recovery program at the sizable Wilmington, California field. Champlin refines its own and purchased crude oil at its Corpus Christi, Texas; Enid, Oklahoma; and Wilmington refineries, with a combined capacity of 150,000 barrels a day in 1974. Champlin also operates six gas processing plants with a total capacity of 555 million cubic feet a day.

Champlin markets petroleum products through nearly 1,200 Champlin-branded service stations and truck stops in 18 mid-continental states, selling more than two-billion gallons of petroleum products each year through both retail and wholesale marketing channels.

Champlin's sales and revenues reached an all-time high of $584 million in 1974, up 82 percent or $262 million over the previous year. This is a report on Champlin's wide-ranging activities in 1974.

Exploration and Development Programs—In 1974, Champlin continued its active program of exploration to increase its crude oil reserves. This broad effort was carried out in the continental United States, offshore Florida, Alaska, Canada, the British North Sea, Peru, Indonesia, and The Philippines. By the end of 1974, Champlin held oil and gas leases on more than 900,000 acres, consisting of almost 340,000 acres held by production and more than 560,000 leasehold acres not under current production.

Commercial Development of Brady Field—Brady Field in Sweetwater



Roger S. Plummer
President

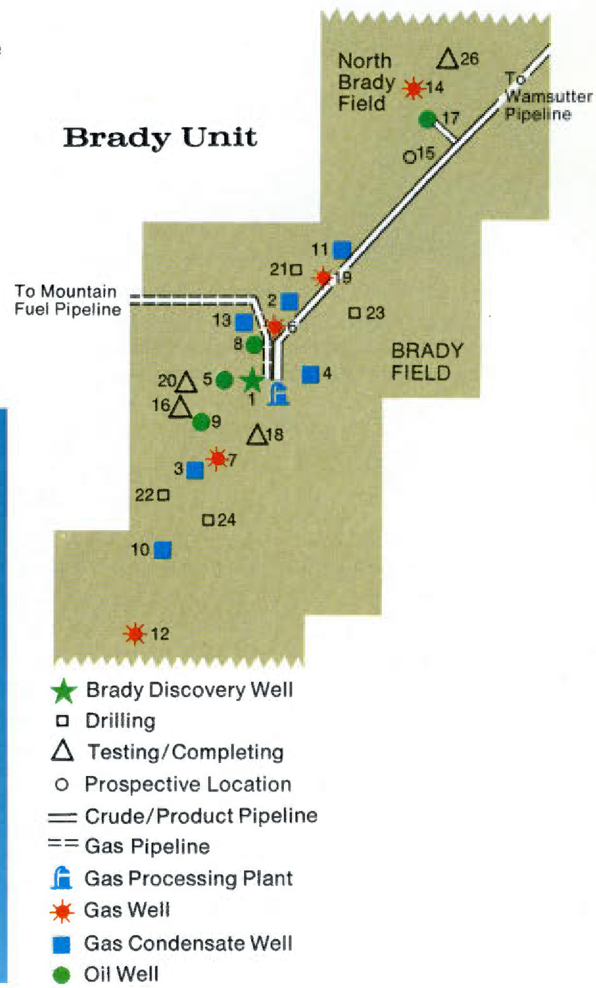
County, Wyoming was discovered by Champlin in 1972. Its total recoverable oil and gas-equivalent reserves have been estimated to be at least 100 million barrels. Champlin has a 41.25 percent interest in approximately 15,700 acres of pooled lands within the 39,000-acre Brady Unit covering the Brady fields. In addition Champlin receives royalties on production allocated to its pooled lands and from its acreage leased to others.

Since this major discovery, Champlin, as operator, has been systematically developing the various Brady Field formations at the different depths in which oil and/or gas have been found. To date, each of the 19 wells drilled has been successful. There have been *no* dry holes. At year's end, six drilling operations were in progress and prospective locations for another 10 wells were being studied (see diagram on this page).

Champlin has been producing oil from the Nugget Formation into its Bitter Creek-Wamsutter pipeline since October 1973, and gas from the Dakota Formation into the pipeline of Mountain Fuel Supply Company since February 1974. The major thrust of Champlin's program in 1975 will be to complete the development of the Weber Formation in the main Brady Field. This formation contains Brady's largest reserve of hydrocarbons. In the Weber Formation the production is gas condensate, and to tap this reserve as well as other formations most efficiently and profitably Champlin is constructing a gas processing plant. Oil recovery from this plant, scheduled to go on-stream in August, will be transported in Champlin's pipeline. The gas will be reinjected into the Weber reservoir to maintain pressure.

North Brady Field Discovered—During 1974, drilling by Champlin on a separate closure about six miles north of the main Brady Field resulted in the discovery of oil and/or gas in the Dakota, Entrada, Nugget and Weber Formations. Development of the North Brady Field, already under way, will be accelerated in 1975. Champlin's share

Drilling operations in Wyoming in 1974 helped to confirm the North Brady Field (below left) while new areas nearby, such as the Higgins Unit (below right), were being explored at depths ranging from 15,000 to 19,000 feet, for those zones which have proved productive in Brady.



Champlin—continued

Champlin's two high-pressure water injection plants at its major Wilmington, Calif. oil field aid in secondary recovery operations. The facilities can pump 700,000 barrels of water a day into oil-bearing formations to help force oil to the production wells. Waste water is processed and recycled.

in the North Brady Field will vary according to its interest in the participating areas but should average about 25 percent.

Offshore Florida—In December 1973, Champlin joined Exxon Corporation, Mobil Oil Corporation and Kerr-McGee Corporation in submitting successful bids of $699.8 million to the U.S. Department of Interior on nine 5,760-acre tracts off the Gulf Coast of Florida. Champlin's share of the total bid for the 52,000 acres was $120.8 million.

Four exploratory shallow wells drilled to the Cretaceous formations have been unsuccessful. Consequently, a $60 million before tax reserve was established for possible losses. Present plans call for drilling in the previously untested deep Jurassic zones and further testing of the Cretaceous formations. Champlin is also sharing the cost of an 18,900-foot well being drilled by Sun Oil Company in the southeast corner of Tract 87, adjacent to two tracts in which Champlin holds a 15 percent interest.

Further Discovery in North Sea Field—The Halibut Group, in which Champlin has a 22.5 percent interest, announced favorable results in August on a fifth consecutive commercially productive well in the giant Thistle Field, located northeast of Scotland in Block 211/18 of the British North Sea. The new well, which extended the Thistle Field northward, tested at an average flow rate of 4,384 barrels per day of 37-degree gravity oil. All five wells drilled in the Thistle Field since 1973 have revealed commercial quantities of oil, with flow rates testing from 4,300 to 6,200 barrels a day. Two other exploratory wells drilled in Block 211/18 on previously untested separate structures not related to the Thistle Field were plugged and abandoned without discovering hydrocarbons. During the summer of 1975, the Halibut Group plans further exploratory drilling in Block 211/18.

A permanent drilling platform capable of handling 200,000 barrels a day is planned for Thistle Field, to be operational in 1977. Its crude production will be carried ashore to the Shetland Islands by a 93-mile pipeline system to be built by 17 oil companies.

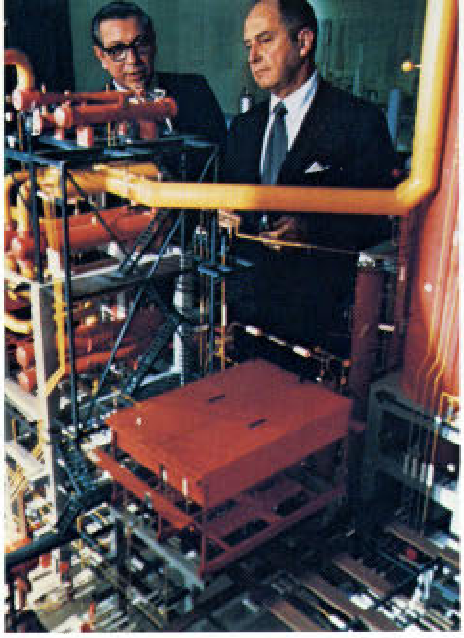
Offshore and Onshore Peru—Champlin is involved in exploration in Peru under three separate service contracts with Petroperu, the state-owned oil company. Champlin acquired rights in two of these contracts in 1974, and it owns a 25 percent interest in each of the three contracts.

With Peruvian Sun Oil Company as operator, the first of four exploratory wells is being drilled in one onshore contract area in the Oriente Jungle east of the Andes Mountains. In the second onshore area, also in the Oriente, Union Oil Company of California as operator has drilled four exploratory wells, three of which produced significant quantities of low-gravity oil which may have commercial potential.

In the third contract area lying offshore northern Peru, Tenneco Inc. as operator has drilled six exploratory wells. One well indicated a flow rate of 5,426 barrels of oil and 18 million cubic feet of gas per day, but two confirmation wells were unsuccessful, indicating that the reserve is relatively small. However, it may be productive at a later date, depending on other offshore developments.

Offshore Indonesia—Champlin, as operator for an Indonesian Group under a service contract to Pertamina, the Indonesian state-owned oil company, drilled three exploratory wells in the Arafura Sea which were plugged and abandoned with no show of hydrocarbons.

The Philippines—Champlin, as operator, has completed extensive seismic studies covering 1.4 million acres, offshore Palawan, under a service contract with The Philippine Government and drilling is scheduled for mid-1975.



Left—Roger S. Plummer, right, Champlin President, and Fred M. Otto, V.P.-Refining, inspect contractor's model of the crude oil processing unit being considered as part of an expansion of the refinery at Corpus Christi, Tex.

Above—Champlin gas stations in the mid-continental states were among the first in their markets to be ready with unleaded gasoline.

The Amoco Drilling Agreement—Amoco Production Company, a subsidiary of Standard Oil Company of Indiana, paid Champlin $3.4 million to renew its 1969 Agreement for oil and gas exploration rights on Union Pacific lands in Wyoming, Colorado, and Utah for the year beginning November 1, 1974. This payment brings to $19.9 million the total payments received as consideration for the Agreement and extensions thus far. Of 1,461 wells drilled, 546 were successful oil and gas wells, and Champlin has received $3.6 million in royalty payments from production. In addition, Champlin has successfully completed 55 wells on acreage retained under terms of the Agreement, and its share of production from these wells through year-end 1974 totalled $6 million. Another 75 wells were in progress at the beginning of 1975 at various locations on the 4.8 million acres still subject to the Agreement.

Production in 1974—Champlin's production of crude oil and condensate was 15.3 million barrels in 1974, compared with 16 million barrels in 1973. This decrease reflects the normal production decline from mature fields.

In 1974, Champlin began to achieve a turnaround in production from the Wilmington Field by means of a major expansion of its secondary-recovery program. This $15 million program, called "Project Big Water," was started in 1972, well before the energy crisis and the crude oil shortage became critical national concerns. Each day nearly 500,000 barrels of water are pumped into the complex network of Wilmington injection wells, thereby forcing more oil up to the surface.

Since early 1974 the higher injection rate has boosted Wilmington output by nearly 20 percent, with even higher output expected in 1975. In addition to increasing Champlin's crude oil production, oil from Big Water is classified as "new oil" under FEA regulations and it can be sold, together with a like amount of "old oil" from Wilmington production, at prevailing market prices.

Refining in 1974—Champlin's total refinery throughput averaged more than 138,500 barrels per day in 1974, representing a 7,100 barrels per day increase over 1973. Champlin's refineries at Corpus Christi, Texas; Enid, Oklahoma; and Wilmington, California operated at close to maximum capacity in the last half of the year.

Engineering studies have been carried out and site preparation is under way in contemplation of equipping the Corpus Christi refinery to process a larger percentage of the Free World's known crude oil grades, including high-sulfur oil.

Champlin's higher throughput in 1974 was achieved through plant modifications and efficiency improvements at all three refineries. In the last half of the year, Champlin was successful in acquiring more crude oil to run for its own account, decreasing the amount processed for other companies.

Marketing—Champlin boosted its sales volume in gallons by 15 percent over 1973, and further concentrated its marketing effort in more efficient outlets with higher average unit sales.

In mid-1974, Champlin marketed a new unleaded gasoline, in compliance with Environmental Protection Agency regulations. Champlin's capacity to produce this unleaded gasoline was built into an earlier upgrading of its refineries, well in advance of the EPA deadline.

Pipeline Operations—The Calnev Pipe Line Company, a wholly-owned interstate carrier operating between Colton, California and Las Vegas, Nevada, delivered 15.5 million barrels of jet fuel and gasoline. This equalled 1973 deliveries, despite product shortages in the Los Angeles basin incurred during the Arab embargo of oil shipments.

Summary of Production & Refinery Runs	(Daily Average) 1974	1973
Net crude oil & field condensate, barrels	**41,937**	43,927
Net interest in gas from all sources, thousand cubic feet	**244,964**	294,451
Gas processed, thousand cubic feet	**391,369**	415,089
Plant products recovered, barrels	**15,543**	16,004
Net interest in plant products from all sources, barrels	**8,758**	9,000
Net production from refineries, barrels	**138,511**	131,389
Petroleum product sales, barrels	**142,981**	124,416

A Diversified Operation Developing America's Much-Needed Mineral Resources

To accelerate development of its large reserves of Western coal, Union Pacific in 1974 merged its two Denver-based mining subsidiaries, Rocky Mountain Energy Company and Union Pacific Mining Corporation. The new operating entity, which retains the name Rocky Mountain Energy Company, will focus on coal while continuing to develop Union Pacific's substantial trona reserves and to explore for uranium.

Rocky Mountain Energy's large reserves of low-sulfur coal are being actively developed through joint mining ventures and leases in several areas of southern Wyoming. Its trona (natural soda ash) base is already well-established in Green River, Wyoming, and development there is expanding vigorously. And its third major mineral, uranium, is being readied for initial commercial production at Bear Creek, Wyoming, possibly as early as 1978.

This is a report on Rocky Mountain Energy's progress in 1974.

Coal Development Accelerates—Rocky Mountain Energy's coal reserves have been estimated to exceed 10 billion tons, most of which contains less than one-percent sulfur. More than 90 percent of this coal will be mined underground, which means that it will not be affected by any restrictive legislation concerning surface mining. Rocky Mountain Energy is accelerating development of this huge reserve, located primarily in Wyoming, and also in Colorado and Utah, to meet the ever-growing needs of utilities and industrial customers.

Coal has returned to prominence as a primary energy source because it is the most abundant fossil fuel in the United States. Since it is estimated that coal output will have to double by 1985 to keep up with demand, low-sulfur coal from the West has become a significant factor in America's drive for energy self-sufficiency. Coal from southern Wyoming, for example, is already being shipped to destinations as far east as Indiana. Rocky Mountain Energy will play a major role in this mounting use of low-sulfur Western coal.

More than 5.3 million tons of coal were mined in 1974 from lands in which Rocky Mountain Energy holds an interest. This figure is expected to increase by more than 50 percent in 1975. This stepped-up output will result from increased activity in mines already operating on leased lands and from a joint-venture mine just started up in southwestern Wyoming. Rocky Mountain Energy receives royalties from coal mined on leased lands and both royalties and equity income from joint ventures.

Joint-Venture Mining Operations—The Medicine Bow joint venture with Arch Mineral Corporation started surface-mining operations at Hanna, Wyoming early in 1975. Its production rate is 3.3 million tons of low-sulfur coal a year. This coal is committed to major utilities in the Midwest. The first shipment of coal from Medicine Bow left the mine on January 20, 1975.

Rocky Mountain Energy accelerated development of its coal reserves in 1974. This U.P. unit coal train is being loaded at a Wyoming mine from which Rocky Mountain Energy receives royalty payments.

Stansbury—A joint venture with Ideal Basic Industries, Inc. will reactivate, expand and operate the Stansbury mine near Rock Springs, Wyoming. This underground mine, which has an estimated recoverable reserve of 60 million tons, was operated to furnish coal for Union Pacific Railroad until 1953. The Stansbury unit, which will start up in 1976, will produce at a rate of more than one-million tons of low-sulfur coal a year. This coal will be delivered to industrial users and public utilities.

Black Butte—A joint venture with Peter Kiewit Sons', Inc. was formed in 1974 for the development of a surface mine in the Black Butte property east of Rock Springs. A major purchase contract with Idaho Power Company provides for delivery of more than three million tons of low-sulfur coal annually, commencing in 1980 and continuing through the end of the century.

Rocky Mountain Energy's Medicine Bow joint-venture mine at Hanna, Wyo. began shipping coal in January, 1975. Essential equipment for surface mining includes a huge dragline (below left) and a power shovel (below right).

James C. Wilson
President

Development Projects—A systematic program has been initiated to provide detailed geologic, engineering and economic appraisals of Rocky Mountain Energy's known coal reserves. This analysis makes it possible to match evaluated blocks of reserves against specific market opportunities.

In 1974, Rocky Mountain Energy shifted its development emphasis toward improving mining technology and productivity. For example, new techniques of hydraulic mining (the use of high-pressure jets of water to break up the coal face) are being studied intensely.

During the year, Rocky Mountain Energy concluded its participation in two coal gasification and liquefaction projects. The first project, in Scotland, was completed after having demonstrated the ability of the coal gas methanation process to upgrade synthetic gas to pipeline quality. The second project, called COGAS, completed the first phase of its program to develop methods of producing synthetic fuel oil and gas from coal. Rocky Mountain Energy elected not to participate in the subsequent phases of the COGAS project.

Trona Production Increases—At Green River, Wyoming, Rocky Mountain Energy is participating in development of the world's largest known deposit of trona (natural soda ash). These reserves are being mined and processed by Stauffer Chemical Company of Wyoming (in which Rocky Mountain Energy holds a 49 percent interest), FMC Corporation, and Allied Chemical Corporation. Royalty income to Rocky Mountain Energy from these operations rose by nearly 50 percent in 1974.

Natural soda ash is used primarily in soap and glass manufacturing, alkaline cleaners, and a number of other chemical applications. The demand for it in 1974 was so strong that all Green River production facilities operated at full capacity and still had to allocate output to customers. In 1976, Texasgulf, Inc. will become the fourth producer of natural soda ash in the Green River area, after completion of a one-million-ton-per-year soda ash mine and refinery facility.

To help alleviate the problem of frequent curtailments of natural gas supply, Stauffer in 1974 extended its gas pipeline network and made connections with five new wells. The long-term availability of economical fuel, however, will strongly influence Stauffer's plans for expansion, and studies of possible conversion to coal are being accelerated.

Uranium Approaches Development Stage—As America strives for energy independence the nuclear power industry will require significantly growing quantities of uranium in each succeeding year.

Rocky Mountain Energy's exploration staff has been engaged in the search for uranium reserves for nearly a decade—using the most sophisticated electronic, chemical and physical techniques to locate and plot uranium deposits. Since 1970, uranium exploration has been carried out under a working arrangement with Mono Power Company, a subsidiary of Southern California Edison Company. Four-million dollars have been allotted for 1974-75, and an additional six-year, $12 million program is contemplated when the current period expires. Rocky Mountain Energy is the program's operator and the two firms share in any discoveries.

During 1974, Rocky Mountain Energy began to evaluate the feasibility of bringing its Bear Creek, Wyoming uranium reserve into production. This property is believed to contain enough reserves to support a mill capable of processing 1,000 tons of ore per day.

Top right—Trona, or natural soda ash, provides both royalties and mining income to Rocky Mountain Energy. Stauffer Chemical Company of Wyoming (49 percent owned by RME) is one of several companies that ship soda ash on the Union Pacific Railroad.

Bottom right—Rocky Mountain Energy, as part of its uranium development program, is testing hydraulic mining methods that may improve the yield from ore-bearing sands. This is a surface test for observation of techniques that will be used underground.

NATURAL RESOURCES—LAND: UPLAND INDUSTRIES CORPORATION

John W. Godfrey
President

A Land Development Operation Serving the Industrial Future of the Growing West

Upland Industries is responsible for acquiring and developing major industrial and commercial properties for sale or lease in the Western business areas served by the Union Pacific Railroad. With energy, mineral, and industrial development spurring growth in the Rocky Mountain states and in many Pacific Coast gateways, Upland expects to capitalize on the long-term need for manufacturing, transportation, and distribution sites throughout the West.

Industrial Development—An important part of Upland's marketing program is the creation of industrial parks served by the Union Pacific Railroad. These parks have fully developed sites, with access roadways, grading, drainage, and power and water facilities.

In 1974, Upland purchased 133 acres of partially developed industrial property identified as Valley Industrial Park, near Kent, Washington, which is being marketed as prime rail-served sites. Valley Industrial Park, purchased for $3.1 million, brings to 917 acres Upland's holdings in the Green River Valley region of metropolitan Seattle, and puts Upland in a particularly good position to take advantage of the expected surge of economic activity from Alaska's energy resources development and increasing trade with the Orient.

Upland completed site grading, street paving, sewer construction, and utilities installation on the first 138 acres of Centennial Park at Salt Lake City for sale or lease to both rail and non-rail industrial users. This Upland development is the first large-scale industrial park to be opened in the area where the major industrial and commercial expansion of metropolitan Salt Lake City is expected to take place.

Upland also began development of its 53-acre North Industrial District at Portland, adjoining the Railroad's Barnes Yard. Construction of underground utilities and interior streets is scheduled for completion by mid-year.

In 1974, Upland, as the industrial development agency for Union Pacific Railroad, helped 187 firms to select Railroad-served sites, which are expected ultimately to produce an estimated $18 million in annual traffic revenues. Some examples of these:

A $12-15 million, three-million-bushel export grain elevator at Portland, Oregon.

A $7 million wholesale grocery distribution warehouse and office at Roundup, Washington.

A $6.5 million meat packing plant at Greeley, Colorado.

A $5 million greeting card manufacturing plant and distribution warehouse at Brigham City, Utah.

Top—Upland Industries introduced its new Kent Valley properties to commercial and industrial realtors at sales promotion luncheon in Seattle, Wash.

Bottom—Upland, as the Railroad's industrial development agency, helped to locate National Distribution System's 600,000 sq. ft. warehouse on a Union Pacific-served site in Clearfield, Utah. The warehouse has about 14 acres under roof on a 55-acre site acquired from Upland.

A $5 million manufacturing plant for mining and construction equipment at Pocatello, Idaho.

A $5 million plywood mill at Heppner, Oregon.

A $4 million methane gas manufacturing plant at Gilcrest, Colorado.

A $2.4 million iron casting foundry at Junction City, Kansas.

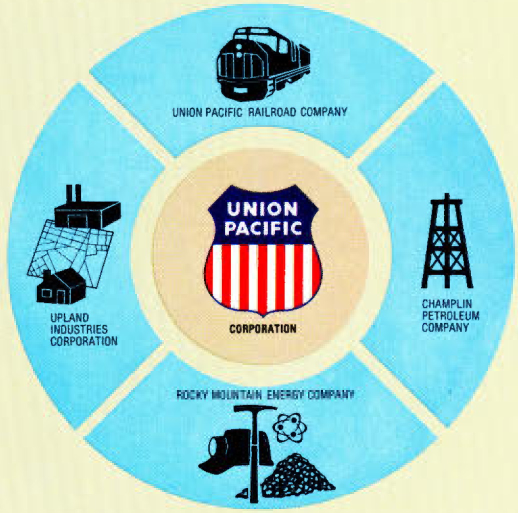
A $2 million telephone cable manufacturing plant at Sidney, Nebraska.

A $2 million distribution center for wearing apparel in the Lincoln Industrial District at Lincoln, Nebraska.

Commercial and Residential Development—During 1974, Upland sold 469 acres near its successful Lincoln Industrial District in Lincoln, Nebraska. This property will be developed as a residential area, including a golf course, and will favorably complement Upland's remaining rail-served Lincoln Industrial properties.

Upland continued to work closely with Wyoming state, county and city officials to help alleviate housing shortages in the southwestern part of the state. During the year, Upland developed property in Green River for permanent and temporary home sites and also provided 80 acres to the Town of Rock Springs for the location of a sewage facility. Upland will continue to assist local and state authorities in planning for the orderly development of this expanding Wyoming area.

ORGANIZATION: UNION PACIFIC CORPORATION



Officers of Operating Companies

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

CHAMPLIN PETROLEUM COMPANY
Roger S. Plummer, President
Linn F. Adams, Executive Vice President
Wm. E. Biggerstaff, Vice President—Marketing
Edward H. Chittick, Jr., Vice President—Exploration
D. O. Churchill, Vice President—Domestic Land
Albert L. Diano, Vice President—Finance and Admin.
David Goodwill, Vice President—Production
Frank L. Jones, Vice President—Pacific Division
Frederick M. Otto, Vice President—Refining
Roy K. Russell, Vice President—Industrial Relations
G. Henry M. Schuler, Vice President and Managing Director—London
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

ROCKY MOUNTAIN ENERGY COMPANY
John M. Kelly, Chairman
James C. Wilson, President and Chief Executive Officer
Stuart S. Merwin, Vice President—Business Development
Eugene A. Lang, Vice President—Operations
Kenneth R. Oldham, Vice President and General Counsel
Robert E. Swingley, Controller and Treasurer

Corporate Information

MAJOR BUSINESSES
Union Pacific Corporation is a major, investor-owned enterprise with deep historical roots **in,** and firm ongoing commitments **to,** excellence in serving a rapidly growing section of America in the basic business areas of freight transportation and natural resources—oil, gas and refinery operations; coal, trona, uranium and land.

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

OPERATING GROUPS
Transportation
Union Pacific Railroad Company
1416 Dodge Street, Omaha, Nebr. 68179

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

Coal and Other Minerals
Rocky Mountain Energy Company
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 1722,
New York, N.Y. 10005

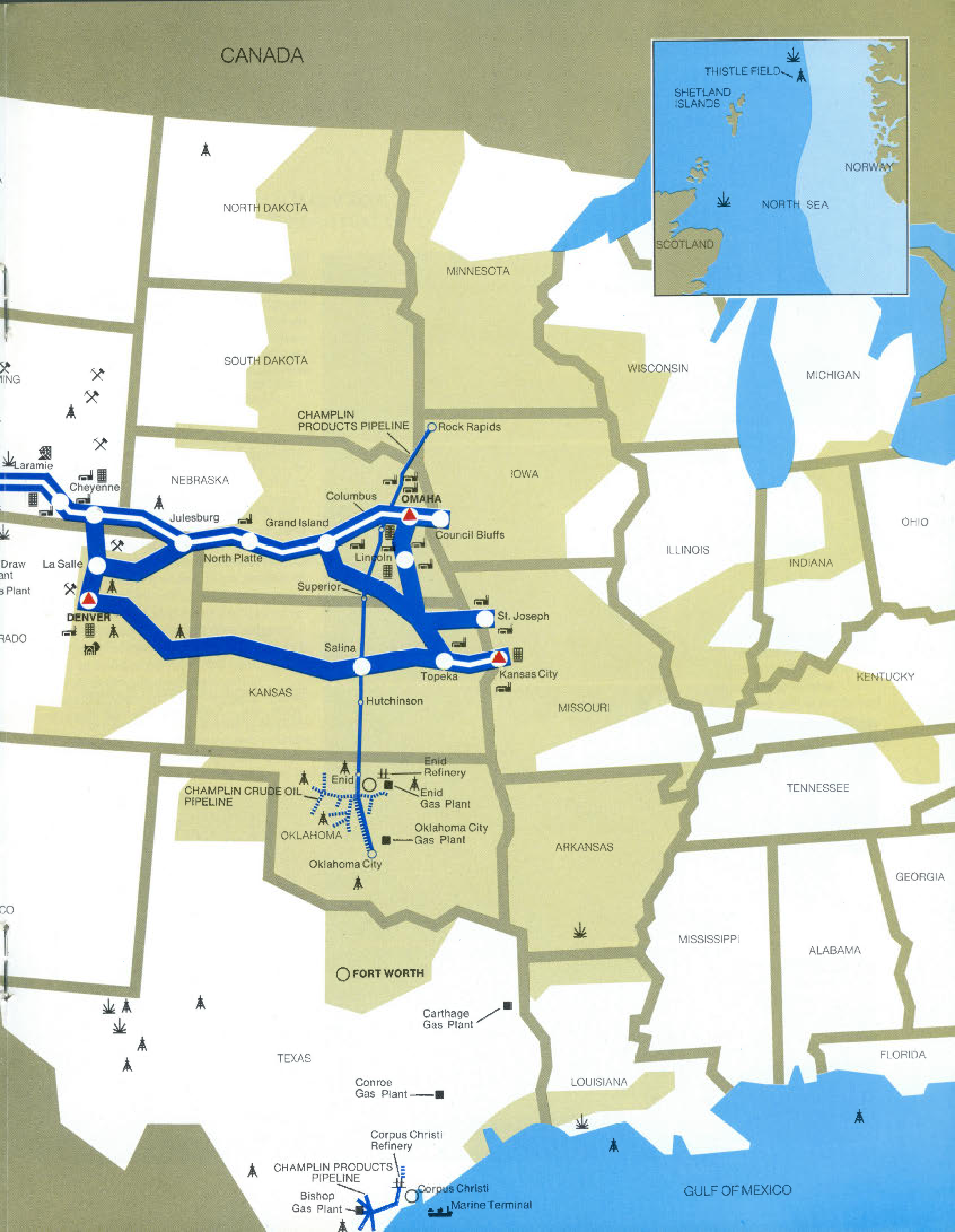
REGISTRAR OF STOCK
U.S. Trust Company of New York
45 Wall Street, New York, N.Y. 10005

STOCK LISTING
New York Stock Exchange
Ticker Symbol—UNP
For stock prices, see page 25

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

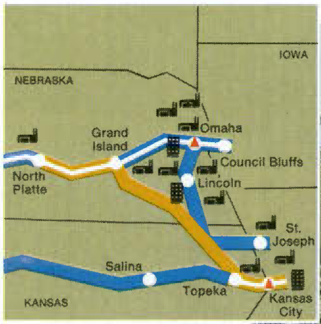
ANNUAL MEETING OF STOCKHOLDERS
May 13, 1975—12:00 Noon, Hotel Utah, Salt Lake City, Utah
The proxy statement and form of proxy will be mailed in early April.

ALASKA
NORTHWEST TERRITORIES
YUKON
BRITISH COLUMBIA
ALBERTA
WASHINGTON
Seattle
Tacoma
Aberdeen
Hoquiam
Yakima
Spokane
Eastport
Portland
Walla Walla
Hinkle
La Grande
OREGON
IDAHO
MONTANA
Butte
Boise–Nampa
Twin Falls
Idaho Falls
Pocatello
McCammon
WYOMIN
Granger
Ogden
Rock Springs–Green River
Salt Lake City
Patrick D
Gas Plan
Brady Unit Gas F
and Pipeline
Provo
UTAH
NEVADA
CALIFORNIA
COLORA
PACIFIC OCEAN
Las Vegas
CALNEV PIPE LINE
Los Angeles
Wilmington Refinery
Long Beach
ARIZONA
NEW MEXIC
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
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
La Salle
North Platte
Lincoln
ILLINOIS
INDIANA
Superior
DENVER
St. Joseph
Salina
Topeka
Kansas City
KENTUCKY
KANSAS
Hutchinson
MISSOURI
Enid Refinery
Enid
CHAMPLIN CRUDE OIL PIPELINE
Enid Gas Plant
TENNESSEE
OKLAHOMA
Oklahoma City Gas Plant
Oklahoma City
ARKANSAS
GEORGIA
MISSISSIPPI
ALABAMA
FORT WORTH
Carthage Gas Plant
TEXAS
FLORIDA
Conroe Gas Plant
LOUISIANA
Corpus Christi Refinery
CHAMPLIN PRODUCTS PIPELINE
Bishop Gas Plant
Corpus Christi
Marine Terminal
GULF OF MEXICO

Major Capital Projects in 1974

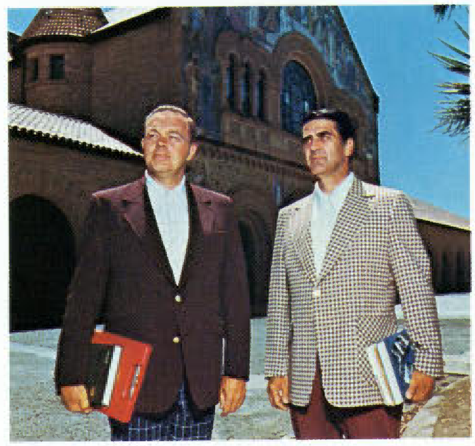


KANSAS-NEBRASKA TRACK AND RIGHT OF WAY UPGRADING—A three-year $14-million program of improvements to Union Pacific's main line between Kansas City, Kans. and North Platte, Nebr. will be completed in 1975. Numerous passing tracks, a new bridge and new yard facilities are included.

GAS PLANT FOR BRADY FIELD—When a new project—including a gas condensate processing plant and a gathering system—goes on-stream in the third quarter of 1975, production of oil and gas from the Brady Field in Wyoming will increase substantially. Champlin's net investment in these new facilities will be more than $6 million.

ASPEN TUNNEL PROGRAM—The Aspen Tunnel, east of Evanston, Wyo., is being enlarged under a $6 million program to increase clearances for handling the Railroad's modern-day equipment.

MEDICINE BOW COAL MINE—This joint venture between Rocky Mountain Energy and Arch Mineral Corporation began operations in early 1975. RME's share of equipment and facilities for the surface mining operation will be $13 million.



Several Union Pacific executives attended advanced management courses in 1974. The Railroad sent A. M. "Gus" Underhill, left, Director of Accounting Operations, and Thane P. Rogers, General Supt. of the Northwestern District, to Stanford University.

Creating Opportunities for Professional and Personal Growth

One of the keys to Union Pacific's continued success is dedicated and skillful employees at all levels. The professional and personal growth of our people is encouraged through a wide range of employee programs and opportunities for self-improvement. Only with well-trained employees can Union Pacific keep alive its tradition of enthusiasm, excellence and dependability in providing service of the highest order to shippers, buyers and consumers.

Union Pacific Corporation and its consolidated subsidiaries employed an average of 30,169 people in 1974 and their salaries, wages and benefits amounted to $539 million—an average of $17,870 per employee.

Employee benefits are an ever-increasing and highly important portion of the total compensation package. In 1974, the Union Pacific Corporation Thrift Plan was started at participating operating companies to give salaried, non-agreement employees an opportunity to build extra financial security through long-term investment of savings. Also new in 1974 was a "benefits annual report," which summarized for each of these employees the value of the major benefits available to the individual and the family.

Education and Development—Union Pacific maintains a proficient workforce through a continuous program of education, training and development. Leadership skills are fostered in advanced management courses as well as specialized short courses, seminars and workshops. In 1974, executives from Union Pacific Railroad, Champlin Petroleum and Rocky Mountain Energy attended advanced programs at Harvard, Stanford, Pittsburgh and Northwestern. Managers and supervisors from all components of the Corporation attended internal management development programs during the year. Rocky Mountain Energy, for instance, held seminars on communications and planning, organizational development and recruiting and hiring practices.

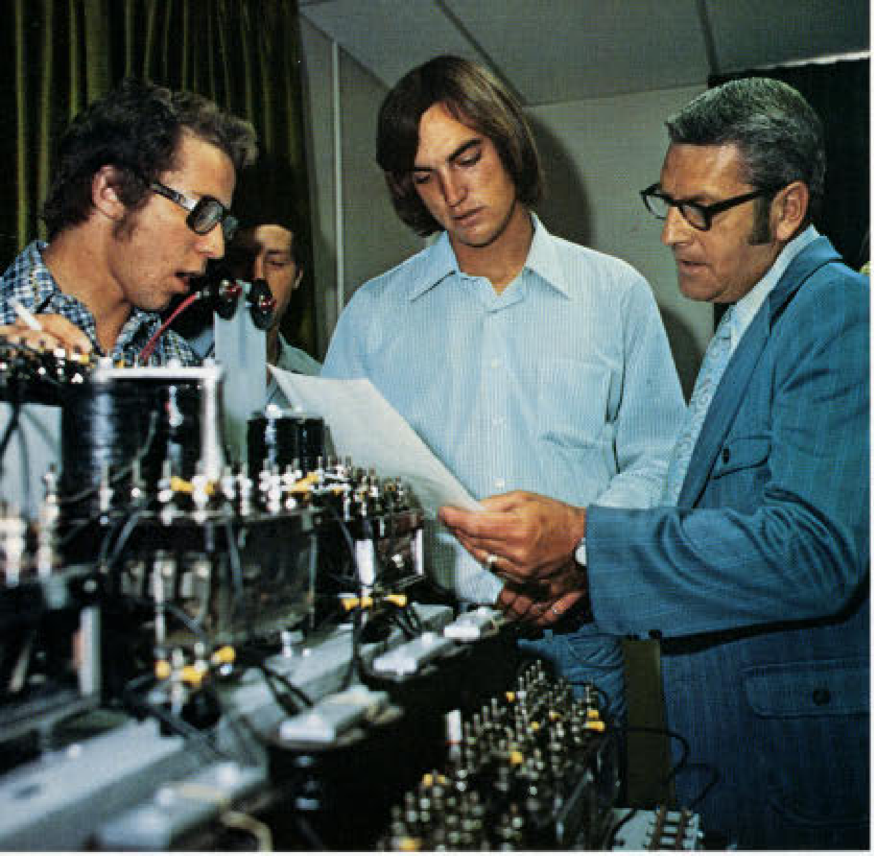
Sales and technical skills received special emphasis at Union Pacific operating companies. More than 60 Champlin people participated in four marketing seminars during 1974 and all of the Railroad's 270 traffic salesmen attended a week-long seminar designed to enhance railroad knowledge and customer relations effectiveness.

Union Pacific's aggressive marketing efforts are supported by thorough training of sales staffs in the latest techniques of market planning and development.

The Railroad opened a new technical training school for locomotive engineers and signalmen during the year in Cheyenne, Wyoming. In 1974, the engineer program trained 110 employees (including women for the first time), and there were 280 employees in three different phases of signalman training. Some 500 employees were trained as switchmen and brakemen and a comprehensive apprentice on-the-job training program for Mechanical Department crafts involved 270 employees.

An unusual orientation and training program—housed in a special railroad car—was taken "into the field" across the Union Pacific Railroad system to introduce data handling methods for the Railroad's COIN II advanced computer information system. Employees who completed the training in 1974 included 220 yardmasters, 300 conductors and 500 yard clerks.

Both the Railroad and Champlin offered environmental protection courses during the year; and Upland Industries continued special training in



Above—The young men trained as signalmen today must master increasingly sophisticated signal equipment now in use. Signalmen receive classroom instruction at the Railroad's Training Center in Cheyenne, Wyo.

Top right—Videotape helps the Railroad's salesmen polish their presentations. Practice sessions are recorded for playback study.

Bottom right—Seminars on personnel administration are helping Rocky Mountain Energy gear up for the growing workforce required by its expanding operations.

the engineering principles associated with land development.

Tuition aid was provided to nearly 700 employees across the country to help them pursue college or technical school degrees or to acquire new job-related skills.

Employee Assistance and Recognition—The Railroad's Employee Assistance Program continued to help individuals cope with personal problems ranging from general emotional difficulties to alcoholism. A new program of pre-retirement counseling was instituted at Champlin. Employees in the 60-65 age group were given information and guidance on retirement benefits, social security and medicare, income taxation after retirement and social adjustment. A total of 275 employees and spouses attended the special sessions.

Left— The Railroad gave new uniforms to the Drum and Bugle Corps it sponsors. Here John C. Kenefick, UPRR President, poses with the corps members, all of them children of Railroad employees.

Bottom left—Champlin now offers a regular program of pre-retirement counseling for employees and spouses.

Union Pacific Railroad awarded college scholarships under a competitive program to 25 sons and daughters of Railroad employees.

During 1974 Upland Industries held its second annual exhibit of art created by its employees, with cash prizes awarded to winners picked by professional artists serving as judges. The Railroad's safety poster contest for children of employees brought hundreds of entries. Winners received savings bonds and their posters were published in the Railroad's magazine for employees.

Voluntary Increase in Pensions—Union Pacific Corporation's Board of Directors in 1974 approved a one-time increase in pension payments to retired employees and widows of retired employees who retired prior to January 1, 1974. The increases ranged from 5 percent to 35 percent based on year of retirement. This action was taken in view of the concern by management and the Board of Directors that rapidly increasing inflation had eroded the standard of living of retirees of the Corporation.

Financial Index

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Management's Discussion and Analysis of Operating Results

Consolidated revenues and sales for 1974 were $1.6 billion, a record for Union Pacific Corporation and an increase of $375.2 million or 30.6% over 1973. In 1974 the Company achieved the highest level of earnings in its history despite a $38.7 million or $1.70 per share reduction in net income resulting from establishment of a reserve for possible losses related to nine offshore Florida oil leases and from adoption of the Last-In, First-Out (LIFO) method of inventory valuation for its wholly-owned petroleum subsidiary. Net income for 1974 of $130.4 million represented a gain of $3.3 million or 2.6% over 1973, while earnings per share of common stock were $5.69 in 1974 compared with $5.61 in 1973.

The following table shows the contribution of the respective business areas to gross revenues and sales and to net income for the years ended December 31, 1974 and 1973.

Revenues and Sales

	1974 $000	1974 %	1973 $000	1973 %
Railroad	$1,000,266	63%	$ 882,245	72%
Natural Resources	583,629	36	321,214	26
Land	15,521	1	20,749	2
	$1,599,416	100%	$1,224,208	100%

Net Income

	1974 $000	1974 %	1973 $000	1973 %
Railroad	$ 99,177	76%	$ 83,546	66%
Natural Resources	35,371	27	47,747	37
Land	3,324	3	2,214	2
Corporate Interest Costs and Expenses	(7,499)	(6)	(6,400)	(5)
	$ 130,373	100%	$ 127,107	100%

Consolidated Union Pacific Railroad net income increased by $15.6 million, or 18.7%, during 1974 while transportation revenues increased by $118.0 million, or 13.4%. Although freight volume was about level with the year 1973, there was a general softening in many commodity categories in the fourth quarter. Freight ton miles increased slightly during 1974 while carloadings were off 3%. Both statistics reflect a greater proportion of high density traffic such as coal and soda ash as well as use of larger capacity freight cars. Carloadings of coal and soda ash were up while decreases occurred in grain, forest products and automobiles. Revenues were favorably affected by freight rate increases designed to cover the cost of increased Railroad Retirement taxes and fuel costs as well as a 10% general rate increase authorized in June 1974. Operating costs increased $104.1 million in 1974, primarily reflecting $40.8 million of higher wages and employee benefits and $58.5 million of increased purchases and higher costs of materials and supplies. This latter number includes higher diesel fuel costs of $37.0 million, or 95% over year 1973. Additionally, the Railroad increased its maintenance of way and equipment programs both to maintain its historic high standards and to provide greater efficiency in operations.

Sales and net income from natural resources included petroleum, coal and other mineral operations. Revenues increased $262.4 million or 81.7% over year 1973.

Net income of $35.4 million was down $12.4 million from last year after the $38.7 million impact of the oil lease reserve and the switch to LIFO discussed below.

Champlin Petroleum Company's sales reached $583.6 million, an increase of 81.7% over 1973. Refined products sales increased 15.6% due to volume and as a result of increased crude oil costs passed through to customers as provided for under Fed-

Financial Review – continued

eral price control regulations. The Federal Energy Administration passed regulations requiring crude allocations within the industry to protect crude deficient refiners and thus permitted Champlin to operate its refineries at near capacity. Sales of crude oil, plant products and gas increased 48.1% largely due to higher postings for controlled "old" crude oil. Additionally, Champlin benefited from higher prices for "new-and-released" crude production principally from the Rocky Mountain and Wilmington, California fields. Prices of natural gas improved throughout the year, while a moderate softening in wholesale refined product prices occurred in the fourth quarter.

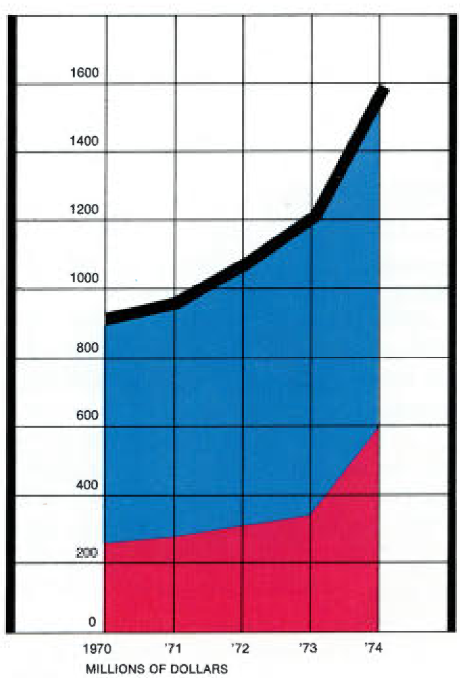
Champlin's operating costs increased $291.2 million largely as a result of continued escalation in domestic crude oil prices, the purchase of high cost foreign oil necessary to operate the refineries at near capacity and start-up costs relative to the secondary water recovery program at Wilmington Field. Operating costs included a $60 million before-tax provision for possible losses relating to the acquisition of nine offshore Florida leases because in the opinion of management initial exploratory drilling results indicated reduced potential value of Champlin's $120.8 million investment in these leases. Also, Champlin adopted the LIFO method of valuing 1974 refined products and raw materials inventories for which it recorded a $14.5 million before-tax provision. The adoption of LIFO was made to achieve a better matching of current costs with current revenues and conforms more closely with predominant petroleum industry practice. The after-tax provision for the nine offshore leases reduced net income by $31.2 million and the LIFO provision had an effect on net income of $7.5 million.

Net income of Rocky Mountain Energy Company increased 54% over 1973 due largely to continued strong demand for coal and trona (soda ash). Royalty income from coal and trona increased 38%. Earnings gains were also recorded from Rocky Mountain Energy's 49% interest in Stauffer of Wyoming which mines, produces and markets natural soda ash. Rocky Mountain Energy accelerated development of its coal resources by concluding two joint venture agreements and increased its uranium exploration programs.

Upland Industries Corporation net income was $3.3 million and was $1.1 million higher than in 1973. Although sales were adversely affected by the high cost of financing to land developers and the general economic outlook, Upland consummated a number of sales near Seattle, Washington and Lincoln, Nebraska which will enhance the marketability of Upland's remaining land holdings in these areas. Progress was made in developing sales opportunities for the Southern California residential properties for which a pre-tax provision of $5.4 million was made during 1973 to provide for possible losses.

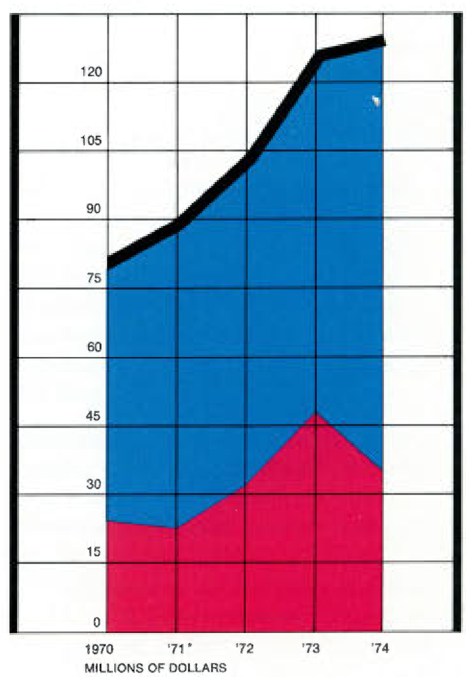
Cash Flow—Cash generated from operations amounted to $300 million in 1974, $17 million (6.2%) higher than 1973 reflecting continued growth in operating performance. These funds

Five-Year Trends by Business Areas



Revenues and Sales

Transportation Operations
Natural Resources Operations, Including Land



Net Income

*Before extraordinary item

Transportation Operations
Natural Resources Operations, Including Land

were used to finance a significant portion of the Corporation's capital expenditures and to increase per share dividend payments to common shareholders.

Capital Expenditures—During 1974 the Corporation further demonstrated its commitment to the future by investing a record $404 million in capital improvements. The following table compares 1974 and 1973 expenditures:

Capital Expenditures by Business Area

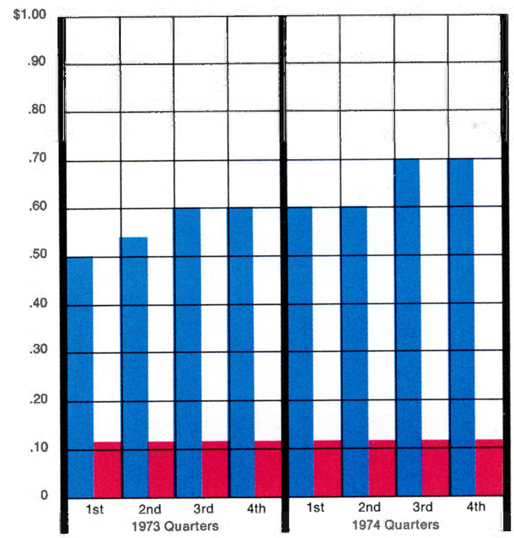
(In Thousands)	1974	1973
Transportation	$195,760	$139,420
Natural Resources	198,162	45,377
Other	10,091	2,744
	$404,013	$187,541

The Railroad's capital expenditures during 1974 included $143.6 million for the acquisition of 120 locomotives and 3,377 freight cars of which 2,811 cars were purchased and 566 were constructed in company shops. Roadway programs were increased $12.5 million to $51.0 million. Capital expenditures by Natural Resources involved petroleum lease acquisitions including the offshore Florida leases, oil and gas development programs and the development of the Medicine Bow coal mine. In 1974, engineering studies and site work directed toward a contemplated expansion of capacity and flexibility at the Corpus Christi refinery were completed.

Financing—As of December 31, 1974, corporate indebtedness amounted to $576.7 million of which $25.1 million is due within one year. Total indebtedness increased $82.1 million during 1974 as a result of increased capital expenditures. The Corporation reentered the commercial paper market in 1974 with $100 million issued and outstanding at December 31, 1974 as interim financing pending issuance of long-term debt. As of year-end, the Corporation had available under credit lines and agreements unused funds amounting to $135 million. Interest expense totaled $40.0 million in 1974, an increase of $9.3 million from the previous year, reflecting the increased level of borrowings and higher interest rates. Consolidated debt as a percent of capitalization was 22%.

Federal Income Taxes—The total Federal income tax provision for 1974 was $50.2 million compared to $70.0 million during 1973. The decrease in tax expense was attributable principally to future tax benefits relating to the provision for offshore lease costs, higher investment tax credits and increased depletion and intangible drilling cost allowances.

Stockholders' Equity—At December 31, 1974, stockholders' equity amounted to $1.7 billion. During 1974, book value per share increased 3.9% to $75.40 as of the year-end. The 22,991,348 common shares outstanding were held by 70,599 stockholders of record on December 31, 1974, while the 534,527 Series A preferred shares outstanding were held by 2,210 stockholders of record. The $49.9 million principal amount of 4¾% convertible debentures outstanding at December 31, 1974 was held by 8,206 owners of record.



Dividends Declared by Quarters

Common Stock
Preferred Stock

Dividends declared on common stock in 1974 amounted to $59.5 million or 46% of 1974 earnings available for common dividends compared with $50.6 million or 40% of available earnings in 1973. This marks the

Market Price:	1974 High	1974 Low	1973 High	1973 Low
Common Stock				
1st Quarter	$ 97¾	$ 74½	$ 70½	$ 55
2nd Quarter	82¾	65¼	63¼	51½
3rd Quarter	81¼	56½	70⅛	52
4th Quarter	77⅝	51⅜	92¾	65⅜
Preferred Stock				
1st Quarter	$ 17¼	$ 13¼	$ 13¼	$ 11⅛
2nd Quarter	14⅛	11⅜	12½	9⅝
3rd Quarter	14⅛	10¼	12¼	9½
4th Quarter	13⅜	9¼	16½	11¾

Financial Review—continued

seventy-fifth consecutive year in which Union Pacific has paid dividends on its common stock. Dividends of $0.475 per share were paid on outstanding preferred stock.

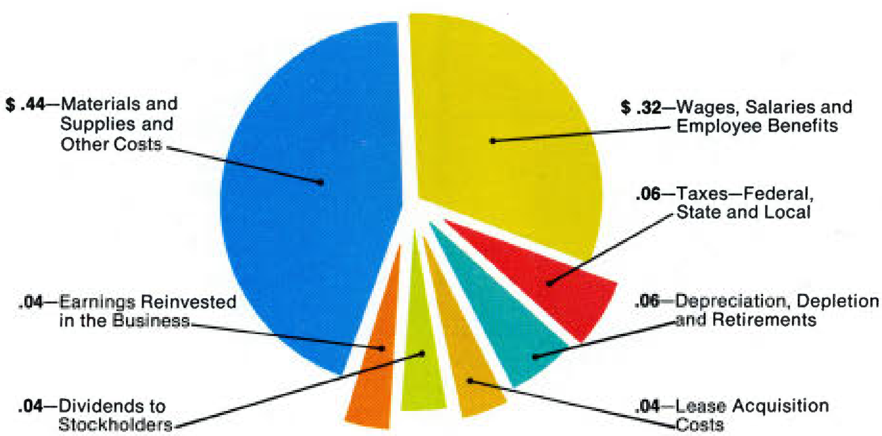
1973 Operating Results in Retrospect—The year 1973 like 1974 was a record year for Union Pacific Corporation. Total revenues of $1.2 billion for the year had increased 11.9% over 1972, while net income was up 21.6% to $127.1 million.

Union Pacific Railroad revenues improved $102.8 million during 1973 due largely to additional freight volume from grains, coal and soda ash. Operating expenses increased 13.6% reflecting both volume and higher wage and employee benefit costs of $46.3 million as well as $24.3 million of increased cost of materials and supplies used in operations and in the expanded maintenance programs.

Natural Resources revenues during 1973 were up by $34.3 million while related net income improved $16.8 million. Petroleum revenues were higher due to improved retail and wholesale prices of refined products, which had been subject to gasoline price wars in 1972, and to improved prices for crude oil and natural gas products.

Federal income tax expense for 1973 increased $14.3 million compared with 1972. The increase was due principally to higher income before Federal income taxes.

Allocation of the 1974 Revenue Dollar



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, 1974 and 1973 and the related statements of consolidated income, consolidated retained earnings and consolidated changes in financial position for the two years ended December 31, 1974. 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, 1974 and 1973 and the results of their operations and the changes in their financial position for the two years ended December 31, 1974, in conformity with generally accepted accounting principles consistently applied during the period, except for the change, with which we concur, in the method of valuing certain inventories as described in Note 1 to financial statements.

Haskins + Sells

January 30, 1975

Statement of Consolidated Income

	(Thousands of Dollars) 1974	1973
Revenues and Sales:		
Transportation revenues	$1,000,266	$ 882,245
Sales	599,150	341,963
Total	1,599,416	1,224,208
Operating Costs:		
Salaries, wages and employee benefits	508,020	467,456
Crude oil and other petroleum raw materials	357,345	153,003
Material and supplies	206,614	141,655
Depreciation, depletion and retirements (Note 3)	100,071	89,600
Provision for losses—lease acquisition costs (Note 4)	63,781	12,352
State and local taxes	47,762	39,770
Other operating costs	119,235	111,821
Total	1,402,828	1,015,657
Operating Income	196,588	208,551
Other Income—Net	23,988	19,216
Interest Expense	(39,992)	(30,655)
Income Before Federal Income Taxes	180,584	197,112
Federal Income Taxes (Note 5):		
Current	42,477	32,866
Deferred	7,734	37,139
Total	50,211	70,005
Net Income	$ 130,373	$ 127,107
Earnings Per Share (Note 12):		
Assuming No Dilution	$5.69	$5.61
Assuming Full Dilution	5.49	5.37

Statement of Consolidated Retained Earnings

	(Thousands of Dollars) 1974	1973
Balance at Beginning of Year	$1,359,805	$1,283,636
Net Income for the Year	130,373	127,107
	1,490,178	1,410,743
Dividends Declared:		
4¾% Convertible preferred stock, Series A	302	322
Common stock (per share: $2.60—1974, $2.24—1973)	59,494	50,616
	59,796	50,938
Balance at End of Year (Note 6)	$1,430,382	$1,359,805

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, 1974	December 31, 1973
Current Assets		
Cash (Note 6)	$ 34,467	$ 17,845
Temporary cash investments, at cost, which approximates market	10,074	66,930
Accounts receivable—net	175,564	170,445
Inventories (Note 1)	100,296	86,737
Other current assets	27,335	43,276
Total Current Assets	347,736	385,233
Investments (Note 2)		
Investments in affiliated companies	56,131	45,694
Other investments, at cost	77,425	79,808
Reserve for investments in securities	(16,272)	(16,272)
Land held for future development, at cost	59,232	56,495
Investments—Net	176,516	165,725
Properties (Notes 3, 4 and 6)		
Transportation property:		
Road	1,063,593	1,018,706
Equipment	1,520,466	1,418,274
Other transportation property	13,576	11,355
Total transportation property	2,597,635	2,448,335
Oil and gas property	652,517	478,311
Other property	55,825	53,540
Less—reserves for depreciation, depletion, and amortization	(902,585)	(796,883)
Properties—Net	2,403,392	2,183,303
Excess of Investment in Consolidated Subsidiaries Over Equities in Recorded Net Assets	71,740	71,915
Other Assets and Deferred Charges	28,439	22,200
Total Assets	$3,027,823	$2,828,376

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, 1974	December 31, 1973
Current Liabilities		
Accounts and wages payable	$ 85,908	$ 70,954
Accrued liabilities:		
Federal income taxes (Note 5)	14,576	24,657
Taxes—other than Federal income taxes	33,661	27,936
Interest	8,942	8,617
Other accrued liabilities	85,219	74,731
Dividends payable	16,853	14,342
Long-term debt due within one year	20,093	19,511
Other current liabilities	18,621	16,047
Total Current Liabilities	283,873	256,795
Long-Term Debt Due After One Year (Note 6)	551,564	475,085
Deferred Federal Income Taxes (Note 5)	346,804	334,869
Casualty and Other Reserves	77,209	82,506
Other Liabilities and Deferred Credits	29,572	25,392
Stockholders' Equity		
Preferred stock—no par value, 10,000,000 shares authorized; convertible preferred, Series A, $10 stated value, 534,527 shares outstanding (665,500 outstanding in 1973) (Note 11)	5,345	6,655
Common stock—$10 par value, 30,000,000 shares authorized and 22,991,348 outstanding (22,705,371 outstanding in 1973) (Notes 8 and 11)	229,913	227,054
Paid-in surplus (Note 11)	73,161	60,215
Retained earnings (Note 6)	1,430,382	1,359,805
Total Stockholders' Equity	1,738,801	1,653,729
Total Liabilities and Stockholders' Equity	$3,027,823	$2,828,376

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) 1974	1973
Source of Funds		
Operations:		
Net Income	$ 130,373	$ 127,107
Charges not requiring current outlay of working capital:		
Provision for deferred Federal income taxes (Note 5)	7,734	37,139
Provision for losses—lease acquisition costs (Note 4)	63,781	12,352
Depreciation and other non-cash charges (Note 3)	100,836	106,452
Total working capital provided by operations	302,724	283,050
Proceeds from long-term financing (Note 6)	130,000	36,900
Changes in funds segregated for capital expenditures	(386)	28,766
Other items—net	20,417	30,836
	452,755	379,552
Application of Funds		
Dividends declared	59,796	50,938
Reduction of long-term debt (Note 6)	53,521	74,931
Capital expenditures:		
Transportation	195,760	139,420
Natural Resources	198,162	45,377
Other (including land $6,311, 1974; $2,744, 1973)	10,091	2,744
	517,330	313,410
Net (decrease) increase in working capital	(64,575)	66,142
Working capital at beginning of year	128,438	62,296
Working capital at end of year	$ 63,863	$ 128,438
Components of Increases (Decreases) in Working Capital		
Cash and temporary cash investments	$ (40,234)	$ (70,707)
Accounts receivable	5,119	21,652
Inventories	13,559	14,968
Accounts and wages payable	(14,954)	(6,205)
Commercial paper	—	100,000
Other—net	(28,065)	6,434
Net (decrease) increase	$ (64,575)	$ 66,142

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 are valued at average cost or market. Commencing with 1974 Champlin Petroleum Company (Champlin) adopted the last-in, first-out method of valuing refined products and raw materials-crude oil which heretofore were valued at average cost. Real estate developed and held for sale is carried at the cost of land and improvements thereto; however, administrative costs, property taxes and other carrying charges are absorbed in income on a current basis. All inventories are valued at the lower of cost or market.

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 expense and betterments (improvements) are capitalized.

Depletion and Amortization—Champlin capitalizes intangible drilling and development costs, leasehold costs, and external geological and geophysical exploration costs applicable to acquired mineral rights. Non-producing leasehold costs are not amortized but are charged against income in whole when the leases are deemed worthless for future exploration purposes or in part when there is deemed to have been a possible diminution in value. Leases applicable to domestic operations (including Canada) are accounted for separately whereas offshore, Alaska, and foreign leases are grouped by area-of-interest for accounting purposes. Provisions for depletion and amortization of producing oil and gas properties have been computed on a unit-of-production method by reference to periodic estimates of remaining reserves of the respective properties. Leasehold and development costs relating to other natural resource operations, though nominal, are capitalized and subsequently 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 and hard rock mining operations are charged to income.

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

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:

	1974 ($000)	1973 ($000)
Materials and supplies	$ 47,335	$26,382
Real estate developed and held for sale	29,778	30,747
Refined products	15,751	17,853
Raw materials—Crude oil	7,432	11,755
	$100,296	$86,737

Refined products and raw materials-crude oil are valued at cost on the last-in, first-out (LIFO) method as of December 31, 1974 and on the average cost method as of December 31, 1973. The adoption of LIFO in 1974 was made to achieve a better matching of current costs with current revenues and to conform more closely to prevalent U.S. petroleum industry practice. The effect of the change was to reduce 1974 net income by $7,524,000 ($.33 per share assuming no dilution) and fourth quarter net income (unaudited) by $2,621,000 ($.11 per share assuming no dilution). The effect of the change on the first three quarters of 1974 is presented below. Due to the nature of the change, calculation of comparable information for 1973 is not practicable.

	Quarter Ended		
	March 31, 1974	June 30, 1974	Sept. 30, 1974
Net Income (unaudited):			
As Originally Reported:			
Amount	$34,683	$39,232	$40,797
Per Share*	$1.52	$1.72	$1.78
As Restated:			
Amount	$31,551	$39,232	$39,026
Per Share*	$1.38	$1.72	$1.70

*Assuming no dilution

The excess of current replacement cost over the carrying value of inventories valued on the LIFO method approximated $14,500,000 at December 31, 1974.

2. Investments

Investments in affiliates are carried at equity. Net income for the years ended December 31, 1974 and 1973 includes equity in net income (loss) of affiliates of $1,821,000 and ($451,000), 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 for depreciation, depletion, and amortization are summarized as follows:

	1974 ($000)	1973 ($000)
Depreciation, depletion and amortization:		
Oil and gas properties	$ 19,503	$ 19,114
Other classes of property	70,676	68,088
	$ 90,179	$ 87,202
Repairs and replacements of track structure	$ 66,458	$ 54,047

4. Provision for Losses—Lease Acquisition Costs

Amounts in 1974 include a $60,000,000 fourth quarter provision for possible losses associated with Champlin's interest in nine 5,760 acre tracts off the Florida Gulf Coast acquired January 1, 1974 at an aggregate cost of $120,774,000.

5. Federal Income Taxes

An analysis of the components of Federal income tax expense and the related reconciliation between the statutory and effective tax rate for the years ended December 31, 1974 and 1973 follows:

	1974 ($000)	1973 ($000)
Components of Federal income tax expense:		
Federal income tax effect on income for the year:		
Current provision	$59,759	$49,977
Deferred provision[a]	7,734	33,411
	67,493	83,388
Less investment tax credit (under "flow-through" method):		
Usable in current period	17,282	17,111
Carryforward	—	(3,728)
	17,282	13,383
Net provision for Federal income taxes:		
Current provision	42,477	32,866
Deferred provision	7,734	37,139
	$50,211	$70,005
Tax rate reconciliation:		
Statutory tax rate	48.0%	48.0%
(Decreases) Increases in tax rate resulting from:		
Investment tax credit	(9.6)	(6.8)
Depletion of natural resources	(6.3)	(3.7)
Intangible drilling costs	(2.9)	(1.0)
Capital gains	(1.2)	(.9)
Dividend exclusions	(.8)	(.7)
Other book-tax differences	.6	.6
Effective tax rate	27.8%	35.5%

(a) Deferred tax expense, arising from timing differences in reporting revenue and expense for tax and financial purposes, includes $29,805,000 in 1974 and $37,955,000 in 1973 resulting from excess of tax over book depreciation, offset in part by $28,800,000 future tax benefit relating to $60,000,000 provision for offshore Florida lease acquisition costs in 1974.

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 non-refundable debt due within one year) is summarized below:

	($000) 1974	1973
Commercial Paper	$100,000	$ —
Credit Agreements with participating banks	30,000	50,000
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 8¾%, due serially to 1989	296,233	286,760
Convertible Debentures, 4¾%, due 1999	49,851	62,845
	$551,564	$475,085

Proceeds from commercial paper outstanding at December 31, 1974 have been used as interim financing pending issuance of long-term debt. During 1974 and 1973 the average daily amount of commercial paper outstanding amounted to $8,800,000 and $46,600,000, respectively, at an average interest rate (based upon the total interest expense to the average daily amount outstanding) of 9.7% and 6.7%, respectively, and 9.7% at December 31, 1974. The maximum amount outstanding during both 1974 and 1973 was $100,000,000.

During 1974, the Corporation renegotiated its contractual credit agreements, which would have matured in 1975, into a single five year $150,000,000 agreement with interest at prime through June 30, 1977 and prime plus ¼% from July 1, 1977 through June 30, 1979. The average daily amount outstanding under the agreements during 1974 and 1973 amounted to $99,507,000 and $7,877,000, respectively. The Corporation pays a ½% annual commitment fee on the unused portion of the agreement. The credit agreement contains certain covenants, one of which limits payment of cash dividends to income earned subsequent to December 31, 1972. At December 31, 1974, $146,746,000 of retained earnings were available for dividends.

In addition to the credit agreement, the Corporation has a $20,000,000 short-term line of credit of which $5,000,000 was in use at December 31, 1974. With respect to both credit arrangements, the Corporation and its subsidiaries have agreed with the participating banks to maintain aggregate compensating balances equal to 10% of the banks' total commitment and an additional 10% of funds in use. All required compensating balances are on an average annual basis and are unrestricted as to use at any given time. During 1974 and 1973, average compensating balances were $25,000,000 and $19,000,000, respectively.

Unused funds available to the Corporation under credit lines and credit agreements amounted to $135,000,000 and $70,000,000 at December 31, 1974 and 1973, respectively, of which $100,000,000 supported the commercial paper borrowings at December 31, 1974.

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.

The 4¾% debentures became redeemable at the option of the Corporation on April 1, 1974, at an initial redemption price of 104.75% of the principal amount, and are convertible into common stock through April 1, 1999 at $57.14 per share (subject to adjustment under certain conditions). During 1974 and 1973 $12,994,000 and $5,158,000, respectively, of debentures were converted into shares of common stock.

Maturities of long-term debt for each of the five years 1975 through 1979 are $20,093,000, $99,794,000, $27,093,000, $22,829,000, and $22,819,000, respectively. Such maturities do not include the commercial paper and credit agreement discussed above.

7. Pension Plans

The Corporation and its subsidiaries have funded pension plans covering substantially all salaried employees. Actuarial reports issued in 1974 indicate that as of December 31, 1973 unfunded actuarial liabilities amounted to $62,283,000 and the value of vested benefits exceeded market value of pension plan assets by $16,979,000. Under the 1974 Pension Reform Act, the Corporation would be liable in the event of plan terminations for an amount no greater than such excess. Charges to operations for the plans amounted to $10,925,000 in 1974 and $7,720,000 in 1973. Such charges include prior service costs which are being amortized over thirty years.

In addition, the Corporation and its subsidiaries have unfunded pension plans for officers, supervisors and retirees under a predecessor plan. Actuarial reports issued in 1974 for the unfunded plans indicate that as of December 31, 1973 actuarial liability and vested benefits amounted to $39,610,000 and $32,799,000, respectively. Charges to operations for the unfunded plans are based upon actual payments to retirees and amounted to $4,272,000 in 1974 and $3,561,000 in 1973. The difference between the actual retirement payments and normal costs plus amortization of past service costs are not significant for either year.

8. Stock Options

The Corporation has a stock option plan under which there were 113,600 and 152,100 shares available for granting of additional options to officers and key employees at December 31, 1974 and 1973, 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 1974 and 1973 are summarized as follows:

	1974		1973	
	Shares Under Option	Price Range Per Share	Shares Under Option	Price Range Per Share
Balance				
January 1	221,100	$34.38 to 76.94	199,170	$34.38 to 62.50
Granted	38,500	57.19 to 92.14	123,500	53.13 to 76.94
Exercised	(35,750)	34.38 to 61.57	(57,870)	34.38 to 62.31
Expired	—		(43,700)	49.50 to 62.50
Balance				
December 31	223,850	$34.38 to 92.14	221,100	$34.38 to 76.94
Exercisable at				
December 31	185,350	$34.38 to 76.94	97,600	$34.38 to 62.50

9. Proposed Union Pacific-Rock Island Merger

On November 8, 1974 the Interstate Commerce Commission (Commission) approved, subject to certain conditions, the merger of the Rock Island and Union Pacific Railroads. As of January 30, 1975 no determination had been made by the Railroad regarding the Report and Order issued by the Commission. The Commission has extended the time within which petitions for reconsideration or modification of the Order may be filed to March 4, 1975. It is possible that litigation may follow the Commission's decision and neither the ultimate resolution of the matter nor the effective date of such resolution can be forecast at this time.

The Railroad's 1964 exchange offer with holders of Rock Island common stock terminated in accordance with its terms on August 23, 1974 and Rock Island shares deposited under the offer are being returned to the holders of certificates of deposit issued by the Railroad.

10. Commitments, Contingent Liabilities and Litigation

As of December 31, 1974 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 $50,068,000 of which approximately $9,654,000 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 $21,727,000 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 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.

At December 31, 1974 Champlin had plans under a contract involving approximately $100,000,000 for the expansion of the Corpus Christi, Texas refinery.

11. Stockholders' Equity

The outstanding preferred stock at December 31, 1974 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.

Shares of common stock issued during 1974 and 1973, respectively, comprised 227,329 and 90,232 shares upon conversion of 4¾% debentures, 22,898 and 2,269 shares upon conversion of preferred stock, and 35,750 and 57,870 shares upon exercise of stock options. Of the unissued common stock, 1,303,493 shares (1,589,470 in 1973) 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 $12,946,000 in 1974 and $6,524,000 in 1973, as a result of issuance of common stock in excess of par value resulting from exercise of stock options ($1,151,000 in 1974 and $2,164,000 in 1973), conversion of 4¾% convertible debentures ($10,715,000 in 1974 and $4,253,000 in 1973) and conversion of 4¾% convertible preferred stock ($1,080,000 and $107,000 in 1974 and 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.

Seven-Year Financial Review (Dollar Amounts In Thousands)

	1974	1973	1972	1971	1970	1969 (1)	1968 (1)
Revenues and Sales:							
Transportation Revenues	**$1,000,266**	$ 882,245	$ 779,412	$ 700,469	$ 677,848	$ 638,560	$ 602,411
Sales	**599,150**	341,963	314,985	276,772	259,497	52,927	46,289
Total	**1,599,416**	1,224,208	1,094,397	977,241	937,345	691,487	648,700
Operating Costs:							
Transportation Operating Expenses	**825,646**	721,520	635,126	570,619	562,478	537,706	507,980
Cost of Sales	**577,182**	294,137	285,688	255,210	235,520	34,709	27,359
Total	**1,402,828**	1,015,657	920,814	825,829	797,998	572,415	535,339
Other Income—Net	**23,988**	19,216	20,415	23,293	16,357	18,287	14,927
Interest Expense	**39,992**	30,655	33,852	35,377	39,719	13,876	11,017
Federal Income Taxes:							
Current	**42,477**	32,866	21,809	16,499	(3,835)	16,840	14,578
Deferred	**7,734**	37,139	33,858	32,685	38,383	22,253	25,389
Income Before Extraordinary Item	**130,373**	127,107	104,479	90,144(2)	81,437	84,390	77,304
Net Income	**130,373**	127,107	104,479	25,083(2)	81,437	84,390	77,304
Earnings Per Share:(2)							
Assuming No Dilution:							
Income Before Extraordinary Item	**$5.69**	$5.61	$4.62	$4.01(2)	$3.63	$3.76	$3.45
Net Income	**5.69**	5.61	4.62	1.11(2)	3.63	3.76	3.45
Assuming Full Dilution:							
Income Before Extraordinary Item	**5.49**	5.37	4.44	3.87(2)	3.52	3.62	—
Net Income	**5.49**	5.37	4.44	1.11(2)	3.52	3.62	—
Dividends Declared on Common Stock:							
Total	**59,494**	50,616	45,084	44,903	44,858	44,858	44,858
Per Share	**$2.60**	$2.24	$2.00	$2.00	$2.00	$2.00	$2.00
At December 31							
Current Assets	**347,736**	385,233	394,563	440,696	478,306	357,054	274,957
Current Liabilities	**283,873**	256,795	332,267	350,646	377,906	276,329	155,288
Working Capital	**63,863**	128,438	62,296	90,050	100,400	80,725	119,669
Total Assets	**3,027,823**	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	**20,093**	19,511	24,568	34,849	61,785	30,249	24,687
Due After One Year	**551,564**	475,085	513,116	544,548	572,325	298,972	218,977
Stockholders' Equity							
Total	**1,738,801**	1,653,729	1,569,662	1,507,033	1,518,510	1,481,931	1,442,399
Per Common Share	**$75.40**	$72.54	$69.29	$66.76	$67.70	$66.07	$64.31
For the Year							
Capital Expenditures	**404,013**	187,541	149,950	178,686	224,560	178,336	110,029
Operating Cash Flow	**300,458**	283,050	248,020	221,368	218,371	173,048	164,771
Average Number of Employees	**30,169**	29,350	29,732	30,902	32,097	31,416	32,662
Total Salaries, Wages and Employee Benefits	**539,125**	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) The 1971 extraordinary charge of $65,061,000 (net of income tax of $51,532,000) represents the establishment of reserves for participation in Amtrak. The impact of the charge on primary and fully diluted earnings per share was $2.90 and $2.74, respectively. Fully diluted net income per share for 1971 excludes potentially dilutive securities since inclusion would be anti-dilutive.

Union Pacific People Contribute to the Betterment of Their Communities

Through formal corporate programs Union Pacific men and women are able to make a significantly greater contribution toward a better society. The efforts of 30,000 people united in a corporation provide time, money and labor to aid hundreds of worthy causes in communities across "Union Pacific country."

Union Pacific Foundation—The Foundation was created by Union Pacific to make grants of assistance to educational, medical and human welfare institutions as well as cultural activities for projects that have broad community significance in the states where Union Pacific operates. The Foundation has given more than $5 million in the past five years to colleges and universities, hospitals, research centers, united community funds, museums, symphony orchestras, ballet companies and cultural centers such as the Pacific Northwest Indian Center. Among the new grants in 1974 were several to mining colleges in recognition of the country's increased need for trained graduates to help develop new energy resources. Approximately 30 percent of the funds granted in 1974 were for education, 37 percent for welfare (which includes the many united community funds in the states where Union Pacific operates), 25 percent for health and research and 8 percent for cultural and other activities.

Scholarship Programs—During the past 54 years, Union Pacific Railroad has awarded individual scholarships to 12,000 young men and women who are members of 4-H Clubs and Future Farmers of America. In 1974, the Railroad awarded these scholarships to 250 young people in the agricultural heartland it serves.

Champlin awarded eight university scholarships in 1974 for studies in geology, engineering and business administration, all of which are relevant to natural resources operations.

Also in 1974 the Wyoming Youth Council, a volunteer state organization, with funds and assistance provided by the Union Pacific Railroad, started a program for recognition of outstanding teenagers. The program provides monthly awards and an annual scholarship based on individual qualifications and competitive essays about issues that affect young people.

Community Programs—At Spokane, Washington, Union Pacific Railroad helped to make Expo '74 possible by rerouting its operations and transferring its interest in the Union Station property to the city. At Expo itself, Union Pacific's Roundhouse Theater told the Railroad's story in a slide presentation on nine screens which formed a complete circle around the viewers. Hundreds of rail buffs followed UP steam locomotive 8444 and thousands more turned out at scheduled stops between Omaha and Spokane as 8444 brought flags from 13 Western states to Expo.

Top—"Operation Lifesaver," the Railroad's grade crossing safety program, is introduced to Kansas state patrol officers. UPRR produced a slide program and other materials for the campaign.

Bottom—Union Pacific has been a strong supporter of the United Negro College Fund for many years. Glen L. Farr, the Railroad's V.P.-Labor Relations, presents a check to Roger Sayers, a director of the Fund's Omaha area campaign. Mr. Sayers, who is the Railroad's Assistant Manager of Employment, was "loaned" to the Fund for the campaign.

Opposite Page

Top—A community open house introduces the people of Green River, Wyo. to the Railroad's new mechanized repair (one-spot) facility for freight cars.

Middle left—Union Pacific's steam locomotive #8444 stops at Boise, Idaho on historic 2,000-mile, roundabout trip to Expo '74 at Spokane.

Middle right—It looks like typical Western grassland, but this 50 acres near Hanna, Wyo., was a surface coal mine. Two years ago, it was graded and reseeded by Arch Mineral, Rocky Mountain Energy's partner in the new Medicine Bow venture.

Bottom—Like buying a fire engine you hope never to use, the Railroad keeps abreast of the latest techniques for controlling oil spills. Here, a group of supervisors is learning to use floating booms and screens. Field demonstrations at this week-long seminar in Seattle used sawdust to simulate a spill.

"Operation Lifesaver," the major railroad grade-crossing safety campaign already introduced in Idaho and Nebraska on a state-wide basis, was developed in Kansas with the cooperation of state authorities and other railroads.

The Railroad released two significant safety motion pictures during the year. "Clear the Track," winner of the Golden Eagle Cine award, is for people whose jobs require them to work around "live" tracks. "Lucky You," a grade-crossing safety film, is being shown to general audiences and to schoolchildren.

All four of Union Pacific's operating companies are deeply involved in helping Wyoming communities cope with the problems of rapid growth. For example, Rocky Mountain Energy funded an independent study by the Denver Research Institute on community impacts of power plant construction and natural resources development in Sweetwater County, Wyoming. The findings have been made available to state and local groups for cooperative community action.

Environmental Programs—Union Pacific Railroad now has 12 plants where waste water from railroad maintenance and operations is treated to remove oil and other impurities. Total capacity of the plants is 12 million gallons a day, with an average monthly throughput of 62.6 million gallons in 1974.

In the past three years alone, Union Pacific Corporation has spent nearly $23 million for environmental programs to prevent water and air pollution.

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