Union Pacific Corporation

UNION PACIFIC

1976 Annual Report

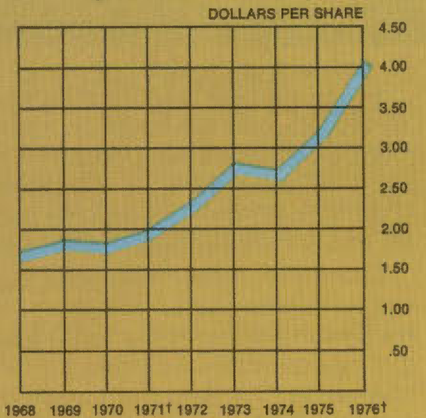
Union Pacific Corporation Annual Report for 1976

HIGHLIGHTS	1976	1975
Revenues and Sales	$2,024,266,000	$1,755,309,000
Income Before Extraordinary Item	$ 187,675,000(b)	$ 148,620,000
Net Income	$ 195,175,000	$ 148,620,000
Per Share of Common Stock (a):		
Income Before Extraordinary Item	$4.02(b)	$3.21
Net Income	$4.18	$3.21
Dividends Declared	$1.475	$1.40
Operating Cash Flow	$ 369,090,000(b)	$ 299,613,000
Capital Expenditures	$ 378,309,000	$ 439,750,000
Working Capital (end of year)	$ 87,146,000	$ 118,189,000
Stockholders' Equity (end of year)	$1,967,538,000	$1,825,133,000
Stockholders of Record—Common and Preferred (end of year)	67,606	71,046
Average Number of Employees	28,386	28,191

(a) Restated to reflect two-for-one common stock split effective January 27, 1977.

(b) Income before extraordinary item excludes a $7,500,000 extraordinary credit to income representing the elimination of an excess Amtrak reserve balance. Operating cash flow also excludes the credit.

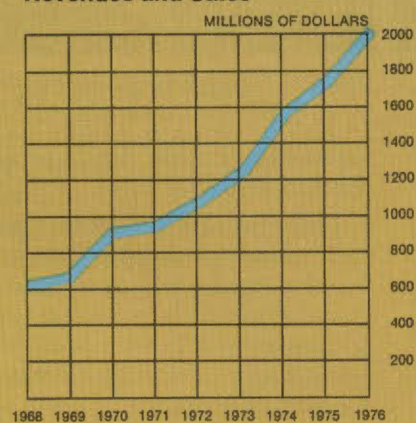
Earnings Per Share*



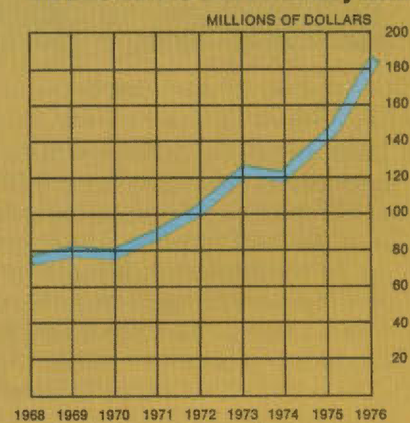
*Restated for 2-for-1 Common Stock Split Effective January 27, 1977.

†Before Extraordinary Item

Revenues and Sales



Income Before Extraordinary Item

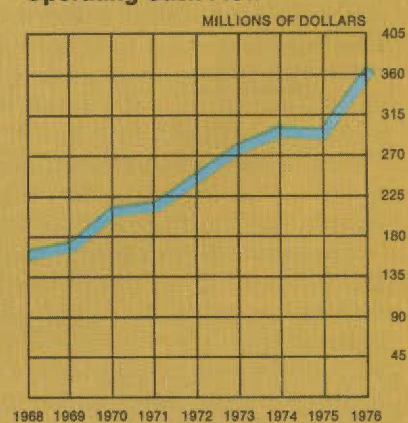


Contents

Opposite Page—In 1976, Union Pacific Railroad hauled nearly 3-million tons of coal from Rocky Mountain Energy's joint-venture mine at Medicine Bow, Wyoming.

Capital Expenditures

Operating Cash Flow



To Our Stockholders:

James H. Evans

Frank E. Barnett

Elbridge T. Gerry

Union Pacific Corporation in 1976 achieved all-time highs in net income and in revenues and sales. Net income reached $195.2 million, including $7.5-million from an extraordinary item reflecting a reduction in reserves related to Amtrak. Earnings before this adjustment were $187.7 million. Revenues and sales totaled $2.02 billion in 1976, up 15 percent or $269 million over the $1.76 billion in 1975.

The 1976 earnings of $187.7 million, excluding the extraordinary credit, were up $39.1 million or 26 percent over 1975 net income of $148.6 million. Earnings per share in 1976, before the extraordinary credit and reflecting a two-for-one common stock split, were $4.02 compared with $3.21 in 1975. The common stock split was approved by Union Pacific stockholders at a Special Meeting on January 18, 1977.

The extraordinary after-tax item of $7.5 million or 16 cents per share reflects lower costs than were anticipated when an after-tax reserve of $65.1 million was established in 1971 to provide for the Union Pacific Railroad's entry into the Amtrak program and discontinuance of its unprofitable passenger service. Including this extraordinary credit, earnings per share in 1976 were $4.18.

Reflecting the Corporation's strong earnings performance in 1976, your Board of Directors on November 18 increased the quarterly dividend 21 percent, from 70 to 85 cents a share. After the stock split, the new quarterly dividend amounts to 42½ cents a share.

Transportation and non-transportation operations contributed almost equally to the overall performance of the Corporation in 1976, and all four operating companies registered strong gains over 1975. Exclusive of Corporate Service expenses, which are not allocated, Railroad earnings before the Amtrak credit totaled $98.7 million, up 18 percent; Champlin Petroleum earned $75.8 million, an increase of 45 percent; Rocky Mountain Energy reported income of $16.2 million, a 31-percent gain; and Upland Industries' earnings were $4.5 million, a 27-percent improvement.

Union Pacific Railroad increased its revenue ton-miles 9 percent from 52.2 billion in 1975 to 56.8 billion in 1976. Carloadings were higher by 7 percent, with nearly all major commodities except grain showing strong gains, particularly motor vehicles and parts, intermodal trailer traffic, soda ash, coal, paper products and lumber products.

Champlin Petroleum had a very successful exploration and development year, particularly in the Rockies, and increased its production of crude oil and gas. Champlin also completed a quarter-billion-dollar expansion of its Corpus Christi, Texas refinery and announced a $630-million international joint venture to construct an ethylene complex near the refinery. Champlin's interest in this project is 37.5 percent.

Rocky Mountain Energy opened up a second joint-venture coal mine in 1976 and made substantial progress toward bringing several others into operation. The company also continued to step up development of Union Pacific's large deposit of trona, or natural soda ash, in southwestern Wyoming, and readied its first uranium mine-mill complex for start-up in mid-1977.

Upland Industries achieved strong gains in both industrial and commercial real estate sales, particularly in the Far West.

The Time is Now

A cold winter may finally have shattered any lingering public complacency about the gravity of this country's energy problems. Misguided Government legislation and regulation, which have stifled the free-market development of new energy sources, have finally led to widespread industrial dislocations, layoffs, school closings, crop losses and personal discomfort on an unprecedented scale.

The national interest demands a comprehensive energy policy which will permit steady economic growth within a framework of sensible safeguards for the environment. The Government should take the following steps toward that policy as soon as possible: deregulate new natural gas and let it compete with other fuels in a free market; remove arbitrary and artificial controls on domestic oil prices; lift the moratorium on Federal coal leases to permit careful development of the large reserves of low-sulfur western coal; develop nuclear energy more extensively, ensuring its safe use with our advanced technology; and encourage genuine efforts to conserve our energy resources.

These steps offer our country a genuine opportunity to approach energy self-sufficiency while protecting its legitimate environmental concerns. We need a sound energy policy and we need it now!

Rail Legislation

The Railroad Revitalization and Regulatory Reform (Quad R) Act of 1976 has been heralded as ushering in a new era for the rail industry. That law, which we strongly supported, established a national policy to rehabilitate and maintain rail properties, improve their operation and restore the financial stability of the nation's railroad system.

This legislation calls for regulatory reform, Federal financial assistance and a number of key industry studies to assist Congress in considering further legislative action.

The Department of Transportation has now completed two of these studies. One analyzed Federal policies and methods of providing aid to competitive kinds of transportation to determine whether these have hurt the railroads. The second developed final classification standards for designating the country's main and branch rail lines.

The Quad R Act further directs the Secretary of Transportation to study the industry's capital needs, as well as mergers and coordination projects necessary to achieve operating efficiencies and service improvements. The Interstate Commerce Commission is to develop standards for attaining rail revenue levels adequate to cover operating expenses, plus a fair return on capital.

We are hopeful that industry and Government will fulfill the Congressional intent in the Quad R Act, since it reflects a significant shift in public policy toward equalizing treatment of competing modes of transportation.

Artemus L. Gates

With profound sadness we record the death of Artemus L. Gates on June 14th. His 30 years of service as a Union Pacific Director capped a distinguished career as both an eminent business leader and a notable public servant. His wise counsel and warm spirit will be sorely missed.

New Directors

Spencer F. Eccles, President of First Security Corporation, Salt Lake City, and Edward L. Palmer, Chairman of the Executive Committee of Citicorp, New York City, were elected to the Union Pacific Board of Directors at the Annual Meeting on May 11.

At the same time, George S. Moore, director of several companies and former Chairman of Citibank, and Earl Baldridge, former Chairman of the Executive Committee of Champlin, retired from the Board. These prominent business executives gave many years of dedicated service to Union Pacific, service characterized by their special personal qualities of foresight, integrity and wisdom.

With deep regret, we have accepted the resignation from our Board of John B. M. Place upon the acquisition, by a major petroleum company, of The Anaconda Company, of which he is Chairman and President. John Place brought to Union Pacific a vigorous, forward-looking approach to complex business challenges.

Outlook

At the present time, we expect moderate growth in the economy through mid-1977, with increasing industrial production and higher consumer spending.

Union Pacific, in both its transportation and natural resource businesses, has the prospects, ability and momentum to continue its profitable growth during 1977 and beyond.

We thank all of our Union Pacific people for their dedicated efforts in meeting the needs of our customers, dealers and distributors. On behalf of the Board of Directors, we express our gratitude to our Union Pacific stockholders for their loyal support and confidence throughout 1976.

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 8, 1977

Union Pacific Railroad Company:

Leading the Way in the West

John C. Kenefick
President

Union Pacific Railroad provides efficient, reliable and economical transportation that is a key to the growth of 13 states in the West. The Railroad hauls a broad range of commodities—coal, soda ash, manufactured goods, lumber and farm products—over a 9,700-mile system maintained to the highest standards in the industry.

The Railroad's diversified fleet of 1,455 locomotives and 70,664 freight cars is coordinated by an interlocking network of computers, electronic controls and microwave systems which facilitates the efficient utilization of cars and locomotives. The Railroad's fleet moves over a streamlined route structure and roadbed built and maintained to handle freight trains weighing as much as 15,000 tons.

Union Pacific is dedicated to tomorrow. In the six years from 1971 through 1976, the Railroad spent nearly a billion dollars on new locomotives, freight train cars, intermodal facilities, repair centers, and computer and communication networks to maintain Union Pacific as the most competitive transportation system in the nation. During that time, its capital investment per employee has climbed from $64,428 to $88,264. This is a report on how one of the country's most efficient and historic railroads served Bicentennial America in 1976.

The Railroad's 1976 earnings before the favorable extraordinary credit of $7.5 million related to Amtrak were $98.7 million, up 18 percent over 1975 net income of $83.9 million. Consolidated revenues reached a new high of $1.2 billion, a gain of 17 percent over the 1975 figure of $1.0 billion.

Freight Operations—Union Pacific achieved a record level in revenue ton-miles in 1976 as a result of the improving economy and the Railroad's aggressive marketing strategy. Revenue ton-miles increased 9 percent to 56.8 billion, compared to 52.2 billion in 1975.

Carloadings in 1976 were up 7 percent over the 1975 volume. The difference in the rates of increase between revenue ton-miles and carloadings reflects the increasing number of higher-capacity freight cars and a greater proportion of heavy commodities hauled by the Railroad.

The tonnage contribution and percentage of change in each major commodity are shown in the Commodities Chart on Page 5.

The Railroad's operating expenses were up $137.7 million or 16 percent in 1976. Labor expenses escalated 12 percent as a result of nationwide wage agreements negotiated in 1975, and, though inflation abated somewhat, the prices paid for fuel, materials and supplies increased steadily throughout the year. In the face of these inflationary pressures, the Railroad intensified its campaign to increase productivity and reduce costs. A 5-percent freight rate increase, much needed to alleviate rising costs, became effective on October 7.

Despite higher expenses, the Railroad was able to lower its operating ratio (operating expenses as a percentage of revenue) to 75.32 from its 1975 ratio of 76.58.

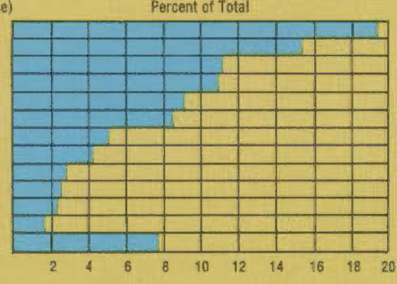
Union Pacific, in conjunction with most of the nation's railroads, petitioned the Interstate Commerce Commission late in 1976 for a 4-percent general freight rate increase. This request, which was granted by the ICC effective January 7, 1977, should partially offset the effects of rising labor and material costs.

Marketing Innovations—In 1976, Union Pacific accelerated its efforts to attract new business. This campaign capitalized on the Railroad's ability to move high volumes of freight swiftly and efficiently over a well-maintained line.

Westbound Union Pacific train hauls trailers on flat cars through Cajon Pass in California.

Freight Traffic by Commodities in 1976

	Tons Carried	Percent Increase (Decrease)
Coal	17,276,613	12.3
Farm Products	13,741,707	4.3
Food and Kindred Products	9,975,929	7.3
Soda Ash, Other Chemicals and Allied Products	9,762,657	13.1
Lumber, Wood Products, Furniture and Fixtures	8,169,706	7.1
Non-Metallic Ores	7,659,841	(17.9)
Iron and Metallic Ores	4,434,168	(.4)
Stone, Clay and Glass Products	3,754,718	(13.9)
Primary Metal Products	2,345,064	4.1
Pulp, Paper and Allied Products	2,098,475	11.0
Petroleum Products and Coke	1,965,003	(22.3)
Motor Vehicles and Parts	1,507,304	50.5
Miscellaneous	6,988,733	12.2
	89,679,918	4.1



Top—Panelized turn-out track sections are being constructed in an assembly-line operation at the Railroad's new Hinkle classification yard in Oregon.

Bottom—Union Pacific's centralized-traffic-control center at Cheyenne, Wyo. monitors an electronic signaling and switching system that increases track capacity substantially.

That ability, combined with Union Pacific's central location and excellent fleet, permits it to provide highly competitive services to customers throughout the West.

Aggressive marketing efforts by the Railroad resulted in a decision by Toyota Motor Company, Ltd. to ship an estimated total of more than 80,000 motor vehicles annually from Portland, Oregon to distribution centers located in the Midwest. Toyota changed its port-of-entry from the Gulf Coast to the Northwest to take advantage of Union Pacific's efficient facilities and reliable schedules, thereby significantly shortening its delivery time to market.

The Railroad raised its total of unit coal trains to an average of 28 a week, an increase of six trains a week over 1975. These trains, originating in Wyoming, Utah and Colorado, deliver large quantities of coal on a steady basis to utilities and industrial customers in eight states, from California to Indiana.

To encourage greater use of Midwest feed grains by West Coast cattle and poultry raisers, the Railroad independently established rates on 25- and 50-car shipments. This innovation was designed to improve the Railroad's profitability, increase its long-haul grain shipments and spread this seasonal traffic over the year. Union Pacific added 30 grain trains in 1976 and expects to schedule 70 more in early 1977.

The Railroad has negotiated incentive rate structures with shippers of transcontinental movements of lumber and forest products to encourage rail utilization for heavier consignments. This is expected to increase Union Pacific's participation in the transportation of such commodities.

Union Pacific reaches well beyond its operating territory by increasing use of run-through trains. These trains, which operate over the lines of more than one railroad without changing locomotives or cabooses, provide fast, reliable, dock-to-dock service for such critical commodities as perishable foods.

In 1976, Union Pacific run-through trains, connecting with nine different railroads, completed more than 7,000 separate trips to points throughout the country. The Railroad scheduled additional daily, high-speed, all-van trains between Midwest gateway cities and West Coast points.

The Railroad was successful in increasing its trailer and container traffic to an all-time high in 1976. Last spring, it began to handle an estimated 40,000 trailer loads of mail a year for the U.S. Postal Service under a four-year agreement. This traffic is being hauled between bulk mail centers in Chicago, Denver, Oakland, Seattle and Los Angeles.

Union Pacific continued to increase its shipments of United Parcel Service trailers throughout its territory. During 1976, the Railroad handled several thousand United Parcel trailers by special high-speed service from Chicago to Denver, Salt Lake City and Portland; and from Los Angeles and Salt Lake City to Denver.

Capital Improvements—Union Pacific continued to optimize its ability to offer reliable service to a broad range of shippers through a diversified program of capital expenditures. The Railroad invested $178 million in equipment, new and improved right-of-way and facilities.

In April, construction began on a $20-million automated classification yard at Hinkle, Oregon and related centralized-traffic-control (CTC) systems. Hinkle will have 32 tracks capable of handling nearly 1,200 cars, with space for 38 more tracks. This project, when completed in 1978, will provide a strategically located classification

yard at the very hub of the fast-growing Northwestern District. This district originates or terminates traffic which accounts for 40 percent of the Railroad's revenues.

The 66-mile centralized-traffic-control installation related to the Hinkle Yard project will carry CTC westward on single track from Crates to Troutdale, Oregon. When this project is completed in 1978, Union Pacific will have double track or CTC single track all the way from Omaha to the Albina Yard near Portland, Oregon.

Centralized traffic control is an electronic switching and signaling system which increases single-line capacity by 80 percent and permits trains to operate in either direction on each of the double tracks on the main line. CTC provides improved scheduling and control of train movements throughout the Union Pacific system.

During 1976, Union Pacific installed 130 miles of centralized traffic control in Wyoming and Utah at a cost of $5.4-million. At the end of the year, the Railroad had 2,135 miles of CTC on single-track line and 290 miles on double-track main line.

In January 1977, the Railroad embarked upon a $20.7 million program to install centralized traffic control on the double-track main line between North Platte, Nebraska and Archer, Wyoming, a distance of 210 miles. This installation will significantly increase the movement of trains over one of Union Pacific's most heavily traveled stretches of main-line track and will permit high-speed trains to pass slower trains.

In late 1976, the Railroad began work on a $2.3 million line change near Kemmerer, Wyoming, in the heart of the coal region. This line change will reduce curves over a 1.5 mile stretch, thus saving significant fuel, time and rail wear every year.

Left—Five Union Pacific diesel locomotives haul long freight train past The Dalles dam in Oregon, with 11,235-foot Mount Hood in the background.

Repair Facilities—During 1976, Union Pacific continued its $14-million program to modernize the Omaha shops. It also began work on a new $6.6 million semi-automated wheel shop at Pocatello, Idaho. When these two programs are completed in 1978, all repairs on locomotive wheels will be handled by a section of the Omaha shops and all repairs on freight car wheels will be handled at Pocatello.

Centralizing maintenance functions increases the Railroad's overall repair efficiency by standardizing parts and equipment, improving inventory control and maximizing the utilization of each repair facility.

Equipment—Union Pacific invested $123.9 million in new transportation equipment in 1976, a decrease of 20 percent from the 1975 figure of $154.1-million. Because of the diversity and efficiency of its fleet, the Railroad was able to moderate purchases of freight cars even during a period of rising traffic, while maintaining high standards of service to its customers.

Union Pacific acquired 73 locomotives for $35.3 million compared with 49 units for $19.6 million in 1975. It also acquired or constructed 2,597 freight cars and 249 bi- and tri-level auto racks at a total cost of $74.7-million.

During 1976, Union Pacific initiated a program to construct open-top hopper cars at its Albina, Oregon shops, and completed 1,000 of these units during the year. This approach results in a substantial saving to the Railroad and assures the availability of this critically needed rolling stock. The Railroad also purchased 1,217 covered hopper cars from outside manufacturers.

Top—Newly-painted coal hopper car is being heat-dried at Albina Shops near Portland, Oregon.

Bottom—Union Pacific's enclosed triple-decker freight cars protect Toyota automobiles being shipped from the West Coast.

Top—Diesel main engine is being lowered into Union Pacific locomotive at the maintenance shop in Salt Lake City, Utah.

Bottom—New lift-span for Union Pacific's Kalan Bridge, southeast of Kennewick, Wash., takes shape along Columbia River. This section has replaced swing-span visible in the background.

Union Pacific spent $13.9 million for work-and-other equipment during 1976.

Maintenance Programs—The Railroad substantially increased its expenditures for maintenance of equipment to an all-time high of $144 million, up $25.8 million or 22 percent over 1975. Union Pacific's maintenance-of-way expenditures also reached a peak of $154 million compared with $126.9-million in 1975, a gain of more than 21 percent.

The Railroad installed 456 miles of rail, including 285 miles of continuous-welded rail. This brings its total of continuous-welded rail to 1,885 miles on the main line.

Union Pacific placed a new high of 1,041,337 cross ties in 1976, including 187,222 cross ties used on new spur lines, yard expansion and extensions to existing lines. This compared with 753,690 cross ties placed in 1975. The Railroad also resurfaced and reballasted 1,570 miles of track, an increase of 342 miles over 1975.

Computer Developments—Union Pacific is broadening and diversifying the scope of its computer network to maximize operational flexibility, improve car utilization and speed up its billing procedures.

In early 1977, the Railroad will inaugurate at Salt Lake City its Terminal Information System. This innovation utilizes mini-computers to keep track of every car received by the rail terminal, thus expediting car-handling within and train-handling through the terminal. Similar installations are scheduled to be completed at Hinkle, Pocatello and Kansas City by 1978.

Also in early 1977, Union Pacific will begin to install the Agency Accounting System to automate the preparation of waybills and to improve its efficiency in the collection of freight revenues. By mid-1978, mini-computers will enable freight bills to be prepared on a local basis at seven key points on the Railroad.

During 1976, Union Pacific linked up electronically on a computer-to-computer basis with the Association of American Railroads' TRAIN II System, which provides the AAR with an up-to-date picture of the geographic dispersion of rail equipment throughout the country. Prior to that, the Railroad, like other carriers, had been sending computer information to the AAR system via a data terminal. With the UP-AAR linkage, the TRAIN II System now has complete and current information on cars moving on the Railroad. By continually monitoring nationwide rail traffic, the AAR can keep better track of the overall distribution of critical equipment in times of high demand.

Union Pacific expanded its COIN II (**C**omplete **O**perating **IN**formation) computer system to improve the handling of empty freight cars. This expanded system monitors the movement of these cars from the moment they come on line until the moment they leave. This concept permits management to change the direction or movement of empty cars to improve their utilization and even to reject unneeded empty cars from other carriers before they come on line.

Champlin Petroleum Company:

Stepping Up Exploration, Production, Refining

William T. Smith
President

Champlin Petroleum is a fully integrated oil company engaged in a broad program of exploration, development and production of crude oil and natural gas, primarily in North America. The company processes crude oil at its three refineries in Corpus Christi, Texas; Enid, Oklahoma; and Wilmington, California; and it transports and markets petroleum products through an extensive network of wholesale and retail channels.

During 1976, Champlin made important oil and gas discoveries in the Overthrust Belt and the Greater Green River Basin in the Rockies and stepped up its development activities in that area, and in the Southwest and Canada. The company doubled the capacity of its Corpus Christi refinery and entered a joint venture which will build a $630-million world-scale ethylene plant near the expanded refinery.

Champlin increased its net income to an all-time high of $75.8 million in 1976, a gain of 45 percent over 1975 earnings of $52.4 million. The company also reached a new high of $816 million in sales, an increase of 13 percent over the $722 million recorded in 1975.

Champlin is participating in oil and gas exploration offshore Southern California on 10 tracts in which it holds interests. Drillship used by the operator, Standard Oil of California, is shown drilling a well on one of the tracts located six miles from shore.

Exploration and Development—In 1976, Champlin carried out one of the most successful exploration and development programs in its history. By the end of the year, the company had significantly increased the acreage which it held under oil and gas leases to 1,104,962 acres, compared with 772,474 acres at the end of 1975. Approximately 305,311 acres were held by production.

Overthrust Belt—The Overthrust Belt has been described by many petroleum experts as one of the "hottest" oil exploration provinces in the country. This promising oil and gas frontier extends in a northerly direction from Utah through Wyoming, Idaho, Montana and into Canada.

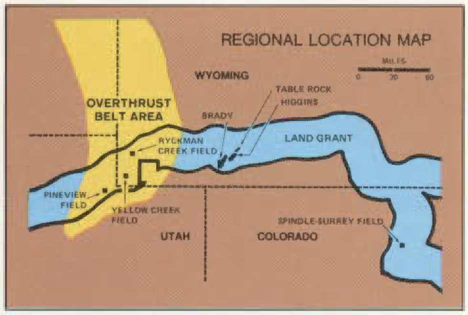
The southern part of the Belt lies within the checkerboard pattern of the Union Pacific Land Grant, which in this area extends for 20 miles on each side of the Railroad's right-of-way. Champlin's agreement with the Amoco Production Company (see page 11) covers many of the alternate sections of the checkerboard in which Union Pacific holds the mineral rights. Champlin expects to average better than an 18-percent participation in this part of the Overthrust Belt through a 100-percent working interest in the northeast quarter of each Union Pacific section and a 15-percent royalty in the remainder. By retaining the northeast quarters, Champlin is able to plan its development drilling efforts in areas already identified as promising.

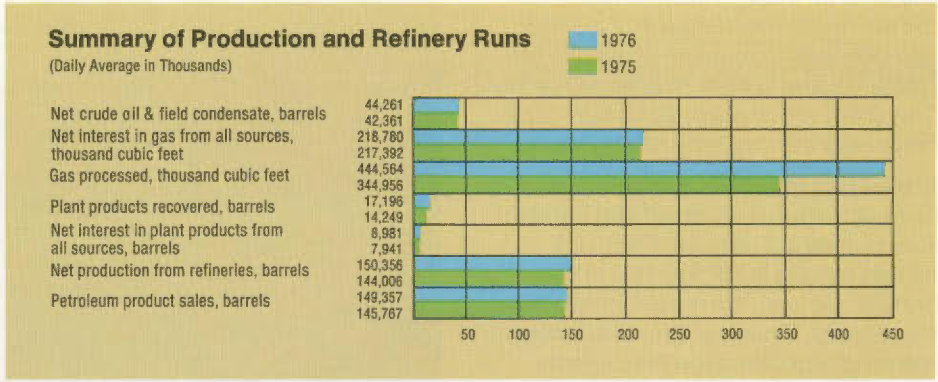
There are three separate fields being developed within the Overthrust Belt:

Pineview—Pineview, an oil field in northeastern Utah, was discovered in mid-1975. Since then, nine additional wells have been completed, one is nearing completion and two more are currently being drilled. Champlin has a revenue interest in six of the completed wells, in the well nearing completion and in one of the wells being drilled. By the end of 1976, Pineview's total cumulative production reached 1,009,000 barrels of crude oil, of which Champlin's share is approximately 19 percent or 189,000 barrels.

Standard Oil Company of Indiana has already extended its pipeline into Pineview to move the crude output from this region to market.

Ryckman Creek—The oil and gas discovery well in this Wyoming field was completed by Amoco in Septem-





ber, with good gas and oil flow rates from three zones in the Nugget Formation. Champlin participated in two other wells, which indicated commercial quantities of oil, and will participate in drilling at seven additional sites that Amoco, as operator, has selected.

Yellow Creek—The Yellow Creek gas discovery well, just inside the western border of Wyoming, was completed by Amoco in July. Champlin participated in the first development well, where tests confirmed the original gas finding.

Champlin plans to participate in an active drilling program within the Land Grant portion of the Overthrust Belt, as well as to explore its 136,000 acres in Wyoming and Idaho on the Overthrust outside the Land Grant. The company's interest in these leases ranges from 37.5 to 100 percent.

Greater Green River Basin—The Greater Green River Basin is a promising natural gas area overlapping part of the Union Pacific Land Grant. In 1975, Champlin took part in two discovery wells in this region—Higgins No. 1 and Table Rock No. 19 in Wyoming.

In 1976, Champlin, with Texaco Inc. as operator, drilled three additional Table Rock wells which confirmed substantial quantities of natural gas in the Madison and Lewis Formations. Champlin owns 50.05 percent of the Table Rock Unit of 12,691 acres.

To the south, Champlin completed a second successful Higgins well which tested a significant quantity of gas in the Weber Formation. The company is currently drilling a third Higgins well and plans a fourth. Champlin holds a 32 percent interest in 20,211 acres committed to the Higgins Unit agreement.

Natural gas from the Lewis Formation of the Table Rock Unit is currently being marketed. Gas from the Madison and Weber Formations in the Table Rock-Higgins area contains a high level of hydrogen sulfide which must be removed at a processing plant before it can be transported to market. Colorado Interstate Gas Company, which has contracted to buy the Table Rock and Higgins gas, expects to complete this plant by late 1977.

The Amoco Agreement—In November 1976, Champlin received $2.4 million from Amoco Production Company, a subsidiary of Standard Oil Company of Indiana, for the final one-year renewal of its 1969 Agreement for oil and gas exploration rights on areas of the Union Pacific Land Grant in Wyoming, Colorado and Utah. Total payments received to maintain this Agreement have been $25.5 million. Of 2,135 wells drilled, 1,083 were successful, and Champlin has received $10 million in production royalties. Another 128 wells were under way at the beginning of 1977 on the 4.7 million acres still covered by the Agreement.

Champlin has also participated in drilling 120 successful wells on acreage retained under terms of the Agreement. From 1970 through 1976, the company's share of production from these wells totaled $19.9 million.

Austin Chalk Trend—In the Austin Chalk Trend of South Texas, one of the most active drilling areas in the nation, Champlin participated in six exploratory wells. The company's working interest in these varies from 16.6 to 100 percent, and initial flow rates from the three completed wells range from 167 to 253 barrels of oil per day. Champlin holds 48,056 net mineral acres in the Trend and plans to participate in additional wells in this region in 1977.

Offshore California—Champlin has an interest in 10 offshore California tracts which it acquired for $22.3 million.

In 1976, the company took part in drilling four wells on three tracts. The first well was drilled by Standard Oil Company of California (Socal) on Tract 254, in which Champlin has a 3.5 percent interest. It encountered about 250 feet of oil-bearing sands, all above the depth of 3,700 feet. Socal is drilling a second well nearby and will drill at least two more in 1977.

A third well, in which Champlin has an 18.78 percent interest, was drilled and abandoned by Texaco on adjoining Tract 253. Additional drilling is planned in 1977 to evaluate this tract further.

Champlin and others are sharing the cost of a fourth well being drilled by Shell Oil Company on Tract 114 of the Outer Banks area to evaluate both Tract 114 and the adjacent Tract 104. Champlin has a 17.78 percent interest in the latter tract.

Offshore Alaska—In mid-April, Champlin acquired a 12-percent interest in two offshore tracts near Icy Bay in southern Alaska for $10.9 million. Texaco, as operator, has negotiated an agreement with nearby lease holders for joint drilling operations in the second quarter of 1977.

Development in Colorado, New Mexico and Wyoming—In 1976, permission was granted by the State of Colorado to reduce well-spacings from 80 to 40 acres in the Spindle-Surrey Field of the Denver-Julesburg Basin. The resulting drilling increased Champlin's net crude production by nearly 1,200 barrels per day.

Additional wells in the Chaveroo Field, New Mexico and in the Manning Field, in eastern Wyoming, increased production by nearly 650 barrels daily.

Opposite Page—Champlin's refinery expansion at Corpus Christi, Tex. was completed in 1976. The new fluid catalytic cracker (broad towers on left side of photo) is one of the key units in the expansion of capacity from 62,500 barrels to 125,000 barrels a day. Other units shown in the photo are involved in crude oil distillation and processing of various feedstocks into refined products.

Canada—In the first quarter of 1977, the company will bring a $1.7 million gas-processing plant on-stream in the Baptiste Lake area of northern Alberta. This plant will process 22 million cubic feet of gas per day from nearby wells.

Production in 1976—Champlin raised its total output of crude oil and condensate by nearly 5 percent, from 15.5 million barrels in 1975 to 16.2 million barrels last year. Increased production from Brady, Pineview, Spindle-Surrey, Manning and Chaveroo Fields more than offset the normal decline in older fields, including Wilmington. The Wilmington Field averaged 21,193 barrels per day in 1976 compared to 23,032 per day in 1975. Champlin's extensive secondary-recovery waterflood program held the production decline in this mature field to 8 percent.

The company's Brady production increased by an average 4,222 barrels per day on a year-to-year basis, while Champlin raised the output of Spindle, Chaveroo and Manning Fields by more than 1,800 barrels per day.

Champlin's net interest in natural gas production was nearly 80.1 billion cubic feet in 1976, slightly above the 1975 total of 79.3 billion cubic feet.

During 1976, the company, as operator, modernized the Carthage gas-processing plant in East Texas under a $7.8 million joint-venture program to increase the plant's ethane recovery from 700 to 4,000 barrels per day, and propane from 900 to 1,900 per day.

Champlin's exploration and development activity moved ahead at a fast pace in the Rocky Mountain area during 1976. The Table Rock Unit Well No. 21 **(top left)** and the Higgins Unit Well No. 2 **(top right)** were successful gas wells completed in the Greater Green River Basin area in southern Wyoming. The Overthrust Belt is a new oil and gas province where Champlin has drilling programs in several fields, including wells in Pineview in northeastern Utah **(bottom left)** and Ryckman Creek in southwestern Wyoming **(bottom right).**

Refining—Champlin's total throughput averaged 150,356 barrels per day in 1976, which represented an increase of 6,350 over 1975. This improvement was achieved primarily through the company's $250-million program to expand the Corpus Christi, Texas refinery.

This expansion, which came on-stream in the fourth quarter, doubled capacity from 62,500 to 125,000 barrels per day. By mid-1977, this capability will be increased to 155,000 barrels per day when the refinery's old Number 1 crude unit is modernized and more storage is added.

The Corpus Christi expansion enables the refinery to process more grades of crude oil, including high-sulfur oil. It also provides the flexibility to produce large quantities of distillates and petrochemical feedstocks, along with low-sulfur oils and high-octane gasoline.

Ethylene Complex—The expanded Corpus Christi operation will supply naphtha and gas-oil feedstocks to a $630-million world-scale ethylene complex to be located 10 miles southwest of the Champlin refinery.

This international project will proceed under a joint venture formed by Champlin (37.5 percent interest); ICI Americas and ICI United States (37.5 percent), subsidiaries of Imperial Chemical Industries Limited of London; and Soltex Polymer Corporation (25 percent), a subsidiary of Solvay & Cie of Brussels.

The petrochemicals complex will soon be under construction and is expected to start up in 1980. It will produce 1.2 billion pounds of ethylene a year, plus substantial quantities of propylene, benzene and crude butadiene, which are basic ingredients in plastics, synthetic rubber, synthetic fiber, anti-freeze and detergents.

ICI, Soltex and Champlin expect to purchase substantial quantities of product from the complex, and the new joint venture will also sell to third parties. Champlin, the operator of the ethylene plant, will buy back excess fuels for the Corpus Christi refinery.

Marketing—Champlin markets a wide range of petroleum products, including gasoline, diesel fuels, heating oil, jet fuel, automotive and industrial lubricants, asphalt, coke and petrochemicals. Approximately 75 percent of the company's refinery production is sold on a wholesale basis. Champlin handles retail sales through 1,100 branded service stations and truck stops in 18 states in the Mid-Continent.

The Corpus Christi refinery expansion has enabled Champlin, through territorial exchange agreements and pipeline arrangements, to expand its wholesale distribution system to a large portion of the Southeast. This geographic diversification provides some insulation against price fluctuations in wholesale markets.

Pipeline Operations—The Calnev Pipe Line Company, a wholly-owned interstate carrier operating between Colton, California and Las Vegas, Nevada, delivered 17.8 million barrels of jet and diesel fuel and gasoline in 1976, an increase of 12 percent over 1975.

Rocky Mountain Energy Company:

Accelerating Coal, Soda Ash, Uranium Development

James C. Wilson
President

Rocky Mountain Energy, Union Pacific's mining company, hastened development of extensive deposits of coal and trona (natural soda ash) in 1976 and expects to begin producing uranium in mid-1977.

The company is currently participating in or negotiating a number of coal-mining joint ventures. It is also constructing its first uranium mill near Casper, Wyoming and is actively involved in the extensive development of trona through one joint venture and through lease arrangements with three other companies.

Rocky Mountain Energy has become an increasingly significant contributor to the Corporation's earnings during the past two years. In 1976, the company's net income reached $16.2 million, a gain of 31 percent over the record figure of $12.4 million in 1975.

Coal Development—Coal is the country's most plentiful fossil fuel. Union Pacific has deposits of predominantly low-sulfur coal, located in Wyoming, Colorado and Utah, which are estimated to exceed 10-billion tons.

In 1976, Rocky Mountain Energy brought a second joint-venture coal mine on-stream. Four more coal joint ventures have been formed and several others are being discussed. All are served by the Union Pacific Railroad.

Approximately 8.0 million tons of coal were mined in 1976 from lands in which Rocky Mountain Energy holds an interest, compared with 6.5 million mined in 1975.

Joint-Venture Mines—Rocky Mountain Energy has two joint-venture coal mines in production, both in southern Wyoming:

Medicine Bow—The first joint-venture operation, a surface mine near Hanna, Wyoming, started up in the spring of 1975, with Rocky Mountain Energy's partner, Arch Mineral Corporation, as operator. In 1976, its first full year of production, Medicine Bow achieved an annual output of 2.8 million tons of low-sulfur coal. This is being marketed under long-term contracts to three utility companies: Kansas Power and Light, Iowa Public Service and Northern Indiana Public Service.

Stansbury—The second joint-venture mine, located north of Rock Springs, Wyoming, was started up in mid-1976 with Ideal Basic Industries, Inc. as operating partner. An underground mine, Stansbury is producing coal for industrial customers, including Ideal Cement and Texasgulf Inc.

Six more joint-venture mines are being developed or are in final negotiating stages. These mines are expected to be in operation by the late 1970's or by 1980.

In August, a joint venture between Rocky Mountain Energy and Peter Kiewit Sons' Inc. executed a 20-year sales contract with a midwestern utility for the purchase of 3-million tons of coal a year. This coal will be supplied by a surface mine on the Black Butte property east of Rock Springs, Wyoming. Another utility, Idaho Power Company, previously agreed to buy more than 3-million tons a year of Black Butte coal.

In November, Rocky Mountain Energy formed a joint venture with Peter Kiewit to develop and mine the Twin Creek and South Haystack properties near Kemmerer in southwestern Wyoming.

Continuous miner (in center background) cuts through a block of coal at Rocky Mountain Energy's Stansbury underground mine, a joint venture near Rock Springs, Wyoming. Shuttle car in left foreground transports coal from the working face to series of conveyors that lift it to the surface.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37


CATERPILLAR

Rocky Mountain Energy's three major lines of business are coal, natural soda ash and uranium. At Medicine Bow surface mine in Wyoming **(top),** power shovel loads low-sulfur coal destined for rail shipment to Midwest markets. In late 1976, Stauffer Chemical Company of Wyoming (49 percent owned by RME) completed a significant expansion of its Green River, Wyo. plant **(middle)** that converts trona ore to natural soda ash. Removal of overburden from uranium ore body **(bottom)** is under way at RME's Bear Creek mine northeast of Casper, Wyo. in preparation for mill operations which are scheduled to begin during 1977.

These surface mines are expected to produce coal at a combined rate of more than 5-million tons a year.

In January 1977, Rocky Mountain Energy and Iowa Public Service Company formed a joint venture to develop the surface coal reserves in the Red Rim area, west of Rawlins, Wyoming. Iowa Public Service has agreed to purchase the mine's planned output of 2-million tons a year and will apply for the intervening Federal acreage.

A joint venture between Rocky Mountain Energy and Arch Mineral will develop the surface coal reserves in the China Butte region, southwest of Rawlins, Wyoming. The mine is expected to reach a production rate of 3- to 4-million tons a year. Arch Mineral has applied for the intervening Federal acreage and will be operator of the venture.

Rocky Mountain Energy and Dravo Corporation have reached a tentative agreement to develop and mine jointly the extensive underground deposits of low-sulfur coal in the Hanna area, in southern Wyoming.

Prospect Point Coal Operation—Rocky Mountain Energy has executed a 10-year agreement with Pacific Power and Light Company to purchase and market excess coal from its Bridger Coal Company mine in southwestern Wyoming. RME's Prospect Point Coal Company will sell a minimum annual quantity of 500,000 tons of this coal which is not required by the nearby Jim Bridger Power Plant. A midwestern utility has agreed to purchase the coal, starting in late summer of 1977. Rocky Mountain Energy is constructing the coal-handling and loadout facility.

Regional Environmental Impact Statements—The Federal Bureau of Land Management is preparing Environmental Impact Statements (EIS) for southwestern and south-central Wyoming in anticipation of resuming the issuance of coal leases. To expedite preparation of the statements and subsequent approval of the Federal mine permit applications, Rocky Mountain Energy, working with its mining partners, has provided substantial geological, environmental and socio-economic data, as well as required information about its mine plans.

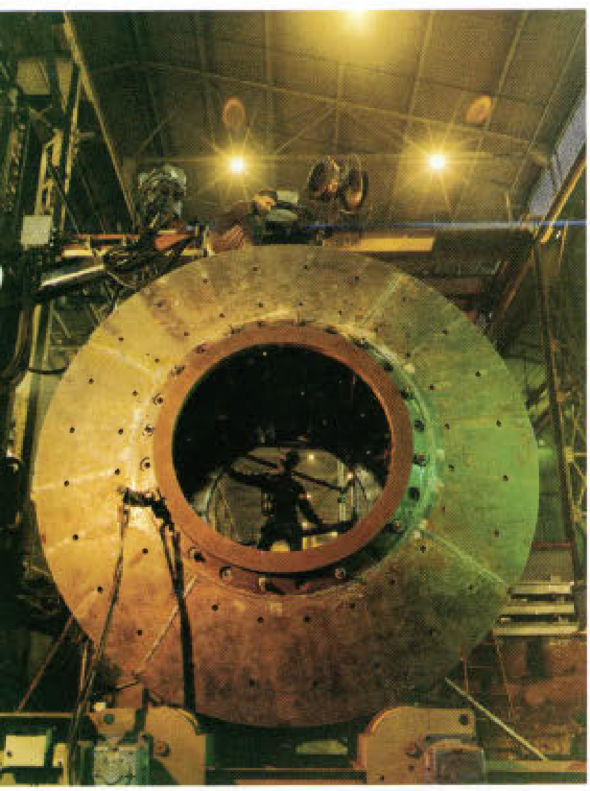
Uranium Production Nears—Rocky Mountain Energy is actively exploring for uranium under a six-year, $24-million joint-venture agreement with Mono Power Company, a subsidiary of Southern California Edison Company.

In mid-1976, construction of a multimillion-dollar mine-and-mill complex began at Bear Creek, 70 miles northeast of Casper, Wyoming. This mill will process about 1,000 tons of uranium ore a day, and its output has been contracted to Southern California Edison and to San Diego Gas and Electric Company.

On January 7, 1977, the Nuclear Regulatory Commission (NRC) issued a draft Environmental Impact Statement on the Bear Creek mill and called for comments from the public within the stipulated 45-day period. Since mid-November, construction work on the mill has been temporarily suspended

Texasgulf Inc. began production of natural soda ash from trona during the fall of 1976 at its new facility near Green River, Wyo. It became the fourth producer mining the world's largest known deposit of trona.

Artist's conception of RME's coal-handling terminal now under construction adjacent to the Jim Bridger Power Plant in southwestern Wyoming (see pg. 15).



A grinding mill shown under construction in Pennsylvania will be installed during 1977 at Rocky Mountain Energy's uranium mine-mill complex at Bear Creek, Wyo. This equipment will grind 1,000 tons of ore per day.

pending issuance of a Source Material License by the NRC after the final EIS is issued.

The mill is expected to be completed on schedule late this spring, and start-up is planned in the summer of 1977. Based upon reserves now controlled by the joint venture, Bear Creek is expected to operate for approximately 15 years.

Soda Ash Production Expands Rapidly —Rocky Mountain Energy is responsible for development of Union Pacific's deposit of trona, or natural soda ash, near Green River, Wyoming. Natural soda ash is an important ingredient in chemical, glass, detergent and baking soda manufacturing. During 1976, RME's royalty and equity income from trona increased 27 percent.

Stauffer Chemical Company of Wyoming (in which RME has a 49 percent interest), FMC Corporation and Allied Chemical Corporation have been mining and processing trona from Union Pacific's deposit, which is the largest known in the world. Texasgulf became the fourth producer of natural soda ash in the Green River area when it placed a one-million-ton-per-year facility on-stream in October 1976.

In December, Stauffer completed a multi-million-dollar expansion ahead of schedule, increasing its plant's capacity by 170,000 tons a year.

In January 1977, FMC signed a lease with Rocky Mountain Energy covering 12 additional sections of land. These sections contain approximately 258-million tons of trona.

Upland Industries Corporation:

Developing Land for Western Growth

John W. Godfrey
President

Upland Industries Corporation, Union Pacific's land development company, manages the Corporation's land bank of prime industrial, commercial and residential sites in 13 rapidly growing states in the West. Upland develops centrally located industrial parks for manufacturing, warehouse and distribution facilities served by the Union Pacific Railroad. These industrial parks are strategically planned to capitalize on the development of expanding urban areas.

From 1971 through 1976, Upland, as industrial development agent of the Railroad, attracted more than 1,000 industrial clients to rail-served sites. These companies generate an estimated total of nearly $100 million of recurring annual rail revenue for Union Pacific.

During the last quarter of 1976, Upland achieved a strong gain in industrial, commercial and residential sales because of improving confidence in business conditions. As a result, the company's 1976 net income was $4.5-million, a gain of 27 percent over 1975. Upland's 1976 sales and lease revenues were $20.9 million, an increase of 8 percent over the previous year.

Top, Upland's 988-acre Lincoln Industrial Park, in southeastern Nebraska, close to Interstate 80 and the Lincoln Airport, features rail service by Union Pacific Railroad. Among the national companies that have built facilities in this industrial and commercial park are General Cable, Jantzen Inc., NCR Corporation and Ace Hardware. Commercial facilities include Holiday Inn, Airport Inn and Metromail Advertising. **Below Left,** The first facilities at Upland's Centennial Park, Salt Lake City, Utah, were completed during 1976. A distribution center and office business park are included. **Below Right,** In Springland Addition subdivision at Rock Springs, Wyo., Upland provided new, single-family housing for employees of the Stansbury Coal Company.

Industrial Development—During 1976, Upland assisted 161 firms in selecting sites served by Union Pacific Railroad. These ultimately are expected to generate an estimated $16.9 million in annual traffic revenues. Upland's efforts to attract more manufacturing plants to its industrial parks and other sites served by the Railroad were increasingly successful.

Among the major facilities located on line by Upland in 1976 were: a $15-million potato products facility at Hinkle, Oregon; a $5-million manufacturing plant for oil, air and gasoline filters at Salt Lake City; a $5-million can manufacturing facility at Edwardsville, Kansas; a $3-million manufacturing plant for metal hardening and welding equipment at City of Industry, California; a $2.5-million motorcycle parts warehouse at Lincoln, Nebraska; a $2-million lumber mill at Benroy, Washington; and a $2-million steel manufacturing and processing plant at Nampa, Idaho.

Upland leased land and docking facilities at Long Beach, California to a drilling service company for use as a staging area to serve offshore petroleum exploration. Upland anticipates a strongly increased demand for lease of other land and facilities to support extensive drilling operations if commercially productive oil fields are developed in the area.

Residential Development—Upland has been actively working to help alleviate the housing shortage caused by the rapid development of energy and mineral resources in southern Wyoming.

To meet the demand for housing in Rock Springs, Upland is developing the 102-lot Bicentennial Addition. These sites will be sold to local builders for construction of a variety of dwelling units for the general public.

In nearby Green River, Upland supervised the construction of 95 houses in one development during 1976 and plans another 80 units in the same development in 1977. All of these houses have been planned and created with the close cooperation of city and county officials. Upland has also sold 110 finished lots to local builders for additional housing in the area.

Union Pacific Corporation

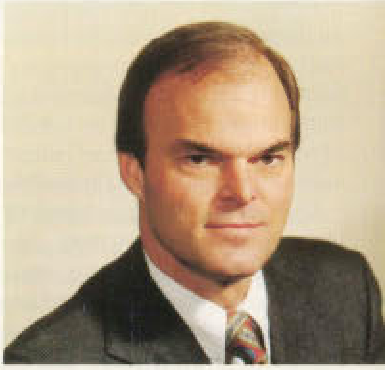
Board of Directors

E. R. Harriman

J. H. Evans

H. B. Mitchell

C. C. Brown



S. F. Eccles

***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.

***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, Chairman of the Board and Chief Executive Officer, First Security Corporation, bankers, Salt Lake City, Utah

Spencer F. Eccles, President, First Security Corporation, bankers, Salt Lake City, Utah

***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 of the 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 of the Board, Omaha National Corporation, bank holding company, Omaha, Nebr.

Minot K. Milliken, Vice President and Treasurer, Milliken & Company, textile manufacturing, New York, N.Y.

***Hamilton B. Mitchell,** Chairman of the Executive Committee, Dun & Bradstreet Companies, Inc., financial information, communications, transportation and marketing services, New York, N.Y.

Edward L. Palmer, Chairman of the Executive Committee, Citicorp, bank holding company, New York, N.Y.

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

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

William T. Smith, President, Champlin Petroleum Company, Fort Worth, Tex.

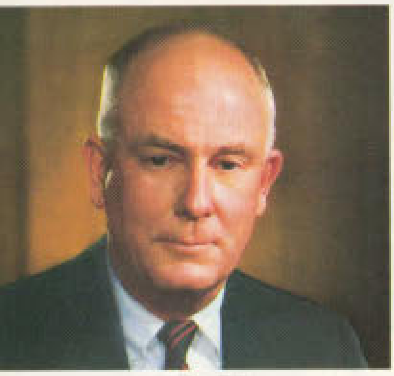
Vernon F. Taylor, Jr., President, Westhoma Oil Company, oil, gas and mineral exploration, Denver, Colo.

*Executive Committee


F. E. Barnett


E. T. Gerry

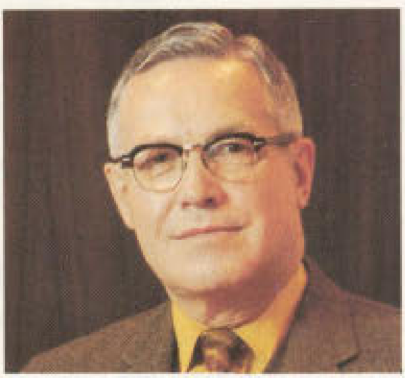

R. A. Lovett


J. C. Kenefick


W. S. Cook

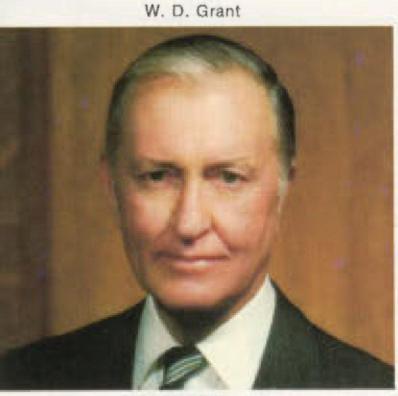

G. S. Eccles


W. D. Grant

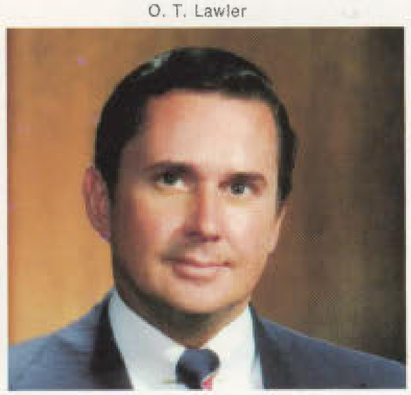

M. F. Miller


O. T. Lawler

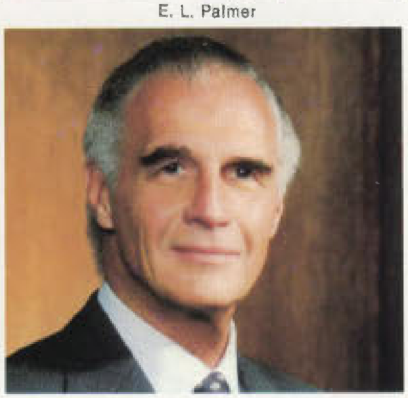

W. T. Smith


M. K. Milliken


E. L. Palmer


J. D. Robinson, III

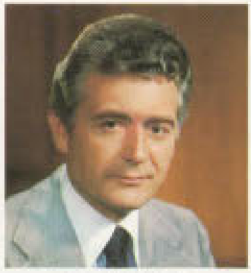

R. W. Roth


V. F. Taylor, Jr.


ALASKA
YUKON
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
UNION PACIFIC
UNION PACIFIC CORPORATION
1976 Areas of Petroleum Drilling Activity
1976 Areas of Seismic Activity
Areas of Mineral Activity
Areas of Coal Activity
Uranium Mine/Mill Complex
Union Pacific Railroad Single Track Line
Union Pacific Railroad Double Track Line
Major Intermodal Trailer–Container Terminals
Commercial Property
Industrial Property
Residential Property
Product Pipelines
Crude Pipelines
Refineries
Corpus Christi Petrochemical Plant
Gas Processing Plant
Area of Trona Activity
WASHINGTON
Seattle
Eastport
Aberdeen
Hoquiam
Tacoma
Spokane
Yakima
Walla Walla
Portland
Hinkle
La Grande
MONTANA
Butte
OREGON
IDAHO
Boise—Nampa
Idaho Falls
Twin Falls
WYOMING
See inset top ri
for details of this a
NEVADA
Salt Lake City
Provo
UTAH
CALIFORNIA
COLORADO
Las Vegas
CALNEV PIPE LINE
Los Angeles
Wilmington Refinery
Drillship
Long Beach
ARIZONA
NEW MEXICO
PACIFIC OCEAN
MEXICO


CANADA
WYOMING
Pocatello
McCammon
Bear Creek
Uranium Mine/
Mill Complex
Casper
Granger
Ogden
Laramie
Cheyenne
Rock Springs
Green River
Patrick Draw
Gas Plant
Brady Gas Plant
Salt Lake City
NORTH DAKOTA
MINNESOTA
SOUTH DAKOTA
WISCONSIN
MICHIGAN
NEW YORK
CHAMPLIN
PRODUCTS PIPELINE
Rock Rapids
NEBRASKA
Columbus
OMAHA
IOWA
PENNSYLVANIA
Julesburg
Grand Island
Council Bluffs
OHIO
La Salle
North Platte
Lincoln
ILLINOIS
INDIANA
Superior
WEST
VIRGINIA
St. Joseph
Salina
Topeka
Kansas City
VIRGINIA
KANSAS
MISSOURI
KENTUCKY
Hutchinson
Enid
Refinery
Enid
Enid
Gas Plant
CHAMPLIN CRUDE OIL
PIPELINE
TENNESSEE
NORTH CAROLINA
Oklahoma City
Gas Plant
Oklahoma City
OKLAHOMA
ARKANSAS
SOUTH CAROLINA
MISSISSIPPI
ALABAMA
GEORGIA
FORT WORTH
Carthage
Gas Plant
TEXAS
Conroe
Gas Plant
LOUISIANA
FLORIDA
Corpus Christi
Refinery
CHAMPLIN PRODUCTS
PIPELINE
Bishop
Gas Plant
Corpus Christi
Marine Terminal
Petrochemical Plant
GULF OF MEXICO

Corporate Officers*


W. J. McDonald


W. F. Surette


W. P. Raines

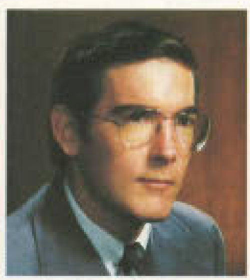

J. P. Halan


R. N. Little


H. B. Shuttleworth


C. A. Rose


C. N. Olsen


P. J. Coughlin, Jr.

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
John P. Halan, Vice President—Employee Relations
Richard N. Little, Vice President
Harry B. Shuttleworth, Treasurer
Chester A. Rose, Controller
Charles N. Olsen, Secretary
Paul J. Coughlin, Jr., General Counsel

*Photos of Messrs. Barnett, Evans, Gerry and Cook are shown on pages 18 and 19, since they also are directors.

Officers of Operating Companies

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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

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B. F. Abernathy, Vice President—Production
Linn F. Adams, Vice President and Regional Mgr. —Denver
Wm. E. Biggerstaff, Vice President—Marketing
Edward H. Chittick, Jr., Vice President—Exploration
D. O. Churchill, Vice President—Land
David Goodwill, Vice President—Pacific Division
Frank L. Jones, Vice President and Regional Mgr. —Houston
Frederick M. Otto, Vice President—Refining
Bruce J. Relyea, Vice President—Finance and Admin.
Roy K. Russell, Vice President—Industrial Relations
G. Henry M. Schuler, Vice President—Governmental Relations & Public Affairs
Charles A. Zubieta, Vice President—General Counsel

ROCKY MOUNTAIN ENERGY COMPANY
James C. Wilson, President
Stuart S. Merwin, Vice President—Business Development
Eugene A. Lang, Vice President—Operations
Kenneth R. Oldham, Vice President, Law and Government Affairs
Charles L. Eaton, Vice President—Controller and Administration

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

Union Pacific People:

On the Job...In the Community

Employee Relations—Union Pacific Corporation is dedicated to attracting and retaining highly qualified employees who will play a vital role in the Corporation's continued success. During 1976, Union Pacific and its consolidated subsidiaries employed an average of 28,386 people, essentially the same number as in 1975. Salaries, wages and benefits increased significantly from $560 million in 1975 to $641 million in 1976.

Management Development—A number of key officers and managers from the Railroad, Champlin and Rocky Mountain Energy attended executive and managerial development programs at Columbia, Harvard, MIT, Pittsburgh and Stanford. The Railroad has established a regular program of officer education which includes fellowships for one academic year.

Twenty employees were selected for the Railroad's advanced management seminar and 88 Traffic Department officers attended skills development programs in their specialization. A total of 100 managers and supervisors were enrolled in formal management development seminars, while 350 employees attended a new three-day seminar, offered on-site, for first-line supervisors.

Champlin conducted a new management and professional development program for 200 employees in 1976. Courses were held at field offices, refineries, gas plants and regional offices.

Employee Training—During 1976, Union Pacific Railroad made a major effort to expand its training for new and present personnel. These include locomotive engineers, switchmen/brakemen, pilot yard foremen, signalmen, purchasing and store personnel, clerks and apprentices. During 1976, 1,417 employees of the Railroad participated in these programs.

New courses have been developed for experienced personnel to update their skills in a variety of crafts. The Salt Lake City Technical Training Center has been expanded to provide additional training for maintenance-of-way supervisors and employees, as well as line operations officers.

Throughout 1976, Champlin conducted technical training to prepare personnel to operate the expanded Corpus Christi refinery. By the end of

Several Union Pacific executives attended advanced management courses in 1976. **Top left,** RME's James D. Hansink, left, Exploration Research Geologist, and the Railroad's Marvin E. Merritt, Division Superintendent, are participating in MIT's Sloan Fellow Program in Executive Development. **Top right,** James F. Davis, General Manager, Uranium Exploration, Rocky Mountain Energy, attended the senior executives' program at MIT. **Bottom,** Supervisors and process operators at Champlin's Corpus Christi, Tex. refinery were given special training to prepare them for operation of the expanded facilities there. The model shown in the photo was useful in reviewing new equipment and systems.

John P. Halan, Vice President—Employee Relations, and Dawn B. Hennemuth, Employee Relations Representative, discuss a comprehensive Employee Benefits Handbook that was recently distributed to all non-agreement Union Pacific people. The new handbook presents, in one source, a description of employee benefits in an easy-to-read format. It also serves as the Benefit Plan Summary required by the Employee Retirement Income Security Act of 1974 (ERISA).

the year, the company had trained 50 process operators to handle the exacting demands of operating new units of the quarter-billion-dollar expansion. It had also conducted a training and development program for 40 supervisors from Corpus Christi.

Educational Assistance—More than 850 men and women took advantage of the Tuition Assistance Program throughout the Corporation. This not only directly benefits the people who participate in courses but helps them acquire new job-related skills.

Matching Gifts—The Union Pacific Matching Gifts Program to support higher education produced significant results in the first full year of its operation. In 1976, eligible employees made 172 gifts to 101 colleges and universities, which the Corporation matched with total contributions of more than $36,000. The response both from the employees and the recipient schools has been gratifying.

Union Pacific Foundation—The Foundation has enriched the lives of countless people throughout Union Pacific's territory of operations. Through a far-ranging financial commitment to educational, medical, cultural and human-welfare institutions, the Foundation has frequently provided indispensable support to social and community development.

This support has averaged one-million dollars a year to colleges, universities, hospitals, research centers, united community funds, museums, symphony orchestras, ballet companies and cultural centers. The Foundation expects to increase its annual giving in 1977 and succeeding years.

An example of a practical project funded by the Foundation is a grant to the Braille Institute of America in Los Angeles. The grant enabled the Institute to purchase a new cylinder press, which embosses 3,500 brailled sheets an hour compared with 900 sheets an hour on the 50-year-old equipment it replaced. With the new press, the

Top left—150 Los Angeles high school students toured Union Pacific Railroad's facilities as part of the school system's "Career EXPO 76."

Top right—Edward Sample (seated at right), Chief Mechanical Engineer at Champlin's Corpus Christi refinery, also serves in the local government as a City Councilman.

Bottom left—As part of an extensive testing program to ensure that Union Pacific uses the cleanest and most efficient diesel fuels, Jerry Magner, a chemist working in the Railroad's laboratory at Omaha, injects sample into the gas chromatograph to check for impurities.

Bottom right—In 1976 about 40 Rocky Mountain Energy non-technical employees attended "Introduction to Mining" courses taught at the Colorado School of Mines.

production of reading material for the blind will be increased dramatically and the Institute will make a net saving through more efficient operations and better unit costs.

Scholarships—Under an ongoing program, the Railroad in 1976 awarded 35 scholarships on a competitive basis to children of employees. Each scholarship provides $400 annually, which is renewable for three additional years if the student maintains a specified grade average each year. In 1976, 50 scholarships were renewed on this basis.

Since 1921, Union Pacific Railroad has awarded scholarships to 12,365 young men and women who are members of 4-H Clubs and Future Farmers of America in the agricultural region that the Railroad serves. In 1976, the company presented these scholarships to 105 young people in 13 states.

Champlin awarded 22 university scholarships or tuition grants in 1976 for studies related to the company's operations: geology, business and engineering.

The Railroad's Wyoming youth-recognition program continued to receive a favorable response in its second year. Funded by Union Pacific and sponsored by the Wyoming Youth Council, the program each month awards $100 U.S. Savings Bonds based on character, leadership, service and scholarship. The top annual award of $1,000 was won by Brett Long of Laramie. She is now enrolled as a pre-law honor student at the University of Wyoming.

Community Relations—Union Pacific people have always prided themselves on social responsiveness in times of crisis. On June 5, in eastern Idaho, this quality was put to a severe test when the Teton Dam burst and floodwaters devastated this large area of rugged countryside. Within hours, the Railroad pitched in with men and equipment to speed the general cleanup of the area and with funds for the relief effort that followed.

Union Pacific has also supported the historical and cultural aspirations of the communities which it serves. During 1976, the Railroad donated several hundred additional volumes of its nineteenth-century executive correspondence and a large number of steam locomotive tracings to the Nebraska State Historical Society. This collection, encompassing more than 40 years, is regarded as a highly significant contribution to the body of material publicly available to historians.

In November, James H. Evans, President of Union Pacific Corporation, presented a collection on microfilm of the records of the Utah Parks Company to the Harold B. Lee Library of Brigham Young University in Provo, Utah. For 50 years the Railroad operated the Utah Parks Company, which

Top—In November, N. Eldon Tanner, left, First Counselor in the First Presidency of the LDS Church, acted on behalf of the Graduate School of Management of Brigham Young University in presenting its "International Businessman of the Year" Award to James H. Evans, President of Union Pacific Corporation.

Middle—Union Pacific contributed two boxcars to the Topeka Civic Dinner Theatre. The cars are used for food and beverage service. A performance by the Kansas group of the musical "Godspell" is shown in the photo.

Bottom—Harold H. Brandt, center, General Manager of the Railroad's Eastern District, presented a Union Pacific Foundation grant to the Utah Symphony orchestra. At left is Wendell J. Ashton, President of the Symphony, and at right is Oscar Chausow, concertmaster.

consisted primarily of lodges and concession properties in four national parks. The properties were donated to the National Park Service in 1972, at which time they were valued at over $2 million. The records will provide valuable information for historical research into a colorful period of Utah history.

Rocky Mountain Energy Company has taken a lead role in forming regional planning groups in Wyoming to help assess and solve community impact problems. RME is actively engaged in Lincoln and Uinta Counties in pilot projects which were established by the Governor to deal with these issues. In Carbon County, Upland Industries and RME are involved in the formation of a countywide planning group with direct industry guidance.

Environmental Efforts—During the past five years, Union Pacific has spent $56 million on a broad range of environmental activities.

The Railroad is spending $1.7 million to improve even further its waste-water clean-up operation throughout its 13-state system. This program focuses on expanding drainage-collection systems, retention dikes, skimmers and holding tanks at fuel-handling terminals.

At its expanded Corpus Christi refinery, Champlin placed in operation a $16.5 million waste-water treatment system and air-pollution prevention equipment costing $11 million. At its Enid, Oklahoma refinery, the company reduced hydrocarbon emissions by 90 percent from four gasoline storage tanks with a total capacity of 260,000 barrels by installing internal floating roofs. Champlin also installed a special boiler which reduces carbon monoxide emissions by 99.5 percent. These projects at Enid had a combined cost of approximately $3.5 million.

Top—Union Pacific Railroad people sponsored a red, white and blue thermal balloon in Omaha's official "Heart of America Day" Bicentennial celebration on July 4, 1976.

Middle—Each year on May 10 the anniversary of the driving of the Golden Spike in 1869 is commemorated at the Promontory historic site in Utah. More than 3,000 spectators attended the ceremonies in 1976. Replica of Union Pacific's famous locomotive "119" is in the background.

Bottom—Family Day at Omaha, Nebr. was one of many open houses for families of employees of the Railroad held during the year. The UP miniature train, used at parades and celebrations, is in the foreground.

Financial Review:

Management's Discussion and Analysis of Operating Results

Index

Consolidated 1976 revenues and sales of $2.02 billion reached an all-time high for Union Pacific Corporation with an increase of $269 million or 15% over 1975. Net income for 1976, including an extraordinary credit of $7.5-million, also achieved a new high of $195.2 million or $4.18 per share after giving effect to a two-for-one common stock split effective January 27, 1977. Earnings in 1976 of $187.7 million before the extraordinary credit were up $39.1 million or 26% over 1975 net income of $148.6 million. Earnings per share in 1976 before the special credit were $4.02 compared with a restated $3.21 for 1975. The extraordinary credit represents an adjustment of an accrued liability established in 1971 relating to Amtrak's assumption of the Railroad's intercity passenger service.

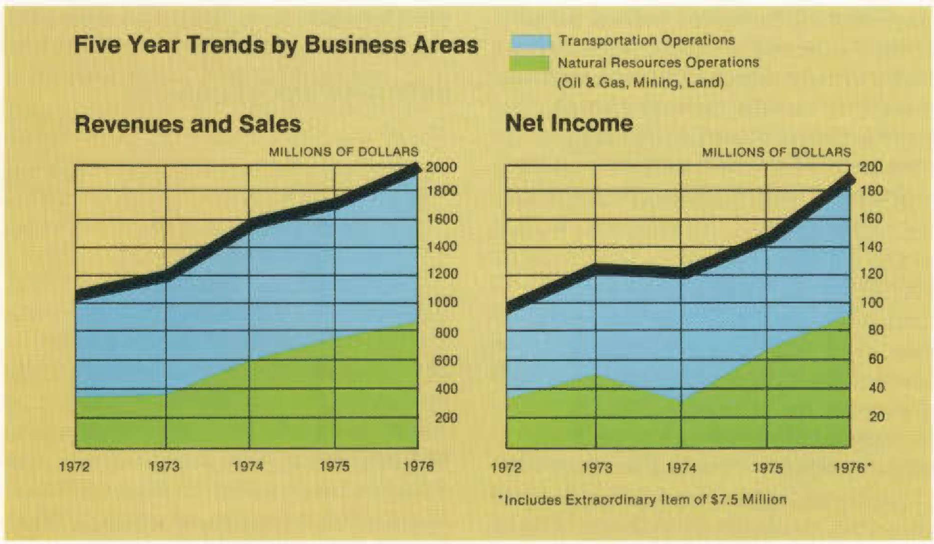
The contribution to gross revenues and sales and income before extraordinary credit by each of the Corporation's areas of business for the years ended December 31, 1976 and 1975 is shown in the following table:

Revenues and Sales

	1976		1975	
	$000	%	$000	%
Transportation	$1,174,544	58.0%	$1,004,342	57.2%
Oil and Gas	815,564	40.3	721,883	41.1
Mining	13,273	0.7	9,820	0.6
Land	20,885	1.0	19,264	1.1
	$2,024,266	100.0%	$1,755,309	100.0%

Income Before Extraordinary Credit

	1976		1975	
	$000	%	$000	%
Transportation	$ 98,656	52.6%	$ 83,880	56.4%
Oil and Gas	75,806	40.4	52,398	35.3
Mining	16,196	8.6	12,380	8.3
Land	4,535	2.4	3,568	2.4
Corporate Interest Costs and Expenses	(7,518)	(4.0)	(3,606)	(2.4)
	$ 187,675	100.0%	$ 148,620	100.0%

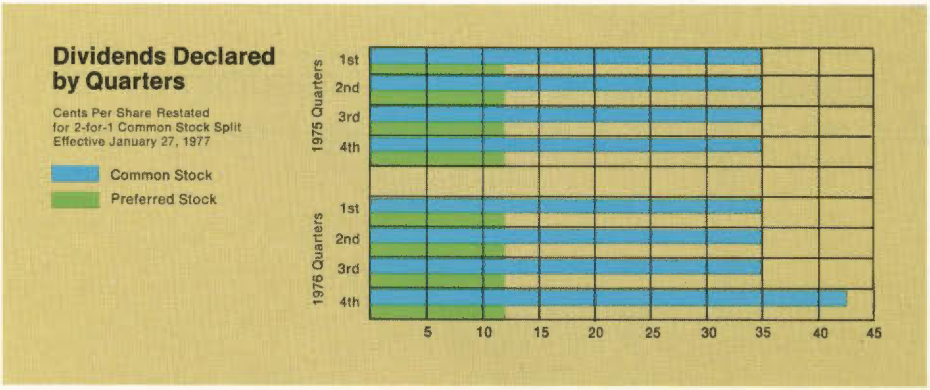


Union Pacific Railroad Company earnings for 1976, before the $7.5 million Amtrak related extraordinary credit, were $98.7 million, an increase of $14.8 million or 18% over 1975 results. Revenue growth of $170.2 million or 17% reflected higher freight volume and the effect of incremental increases in freight rates. Carloadings increased by 7% and revenue ton-miles grew from 52.2 to 56.8 billion or 9%. Traffic gains in motor vehicles and parts, intermodal trailer traffic, soda ash, coal, paper products and lumber products were the major contributors to higher freight volume.

An increase of $137.7 million in Railroad operating costs partially offset the 1976 revenue improvement. Labor costs rose by $64.5 million, reflecting increases in wage rates and higher payroll taxes and other employee benefit costs. The cost of materials and supplies increased by $44.4 million as a result of higher prices and expanded track and equipment maintenance programs, as well as greater diesel fuel costs due to higher prices and additional freight volume. Principal factors in a $22.9 million increase in other operating costs were higher payments for use of privately owned cars and additional car repair costs.

Champlin Petroleum Company earnings for 1976 were $75.8 million, an increase of $23.4 million or 45% over last year. Oil and gas income for 1976 represents a $32.4 million gain over 1975 results, excluding the 1975 after-tax effects of the $40.6 million gain from the sale of Champlin's interest in the British North Sea and the adverse $31.6 million provision for offshore Florida lease acquisition costs. Principal factors contributing to higher 1976 earnings were increased production of crude oil, improved refining and marketing results, higher investment tax credits related to the Corpus Christi refinery expansion and lower dry hole costs compared with abnormally high amounts in 1975 associated with the write-off of foreign operations.

Champlin's sales increased $93.7-million or 13% over 1975 primarily as a result of improved prices for oil and gas products. Refined product sales volume increased by 3% to approximately 2.3 billion gallons. Higher sales of crude oil, plant products and natural



gas reflected improved market conditions, increased production from new fields in the Rocky Mountain area and greater sales volume from the expanded Conroe and East Texas gas plants.

Excluding the before-tax 1975 provision for losses-lease acquisition costs of $60.8 million related to nine offshore Florida tracts, Champlin's operating costs increased $56.6 million or 9% over 1975. Higher 1976 costs were attributable primarily to continued increases in the cost of crude oil, including entitlements, and higher utility rates.

Rocky Mountain Energy Company, Union Pacific's mining subsidiary, contributed 1976 net income of $16.2 million. This improvement of $3.8 million or 31% over last year reflects improved equity income from Stauffer Chemical of Wyoming and operation of the Medicine Bow, Wyoming joint coal venture for the full year as well as a 24% improvement in royalty income as a result of more favorable prices for coal and trona.

Upland Industries Corporation, Union Pacific's land development company, registered net income of $4.5-million. This increase of $1.0 million or 27% over 1975 reflected strong industrial and commercial volume, particularly in the Far West.

Cash Flow—Consolidated cash flow from operations in 1976 was $369.1-million, a substantial $69.5 million increase over the year 1975. These internally generated funds paid dividends, serviced current debt obligations and financed a portion of the capital investment program.

Capital Expenditures—During the year, Union Pacific invested $378.3 million in capital improvements in order to take advantage of a variety of growth opportunities. The table below reflects the expenditures by business area as compared with 1975.

Capital Expenditures by Business Area:

(In Thousands)	1976	1975
Transportation	$177,943	$205,780
Oil and Gas	187,135	205,917
Other	13,231	28,053
	$378,309	$439,750

The Railroad's capital expenditures include $123.9 million for acquisition of equipment as compared with $154.1-million in 1975 and $53.9 million for road and structures as compared with $51.2 million in 1975. Equipment acquisitions included 73 locomotives and 2,597 freight cars, of which 1,000 freight cars were built in company shops. Champlin's capital expenditures in 1976 include $111.6 million for a major addition to Champlin's refinery at Corpus Christi, Texas with the remainder concentrated on exploration and development programs.

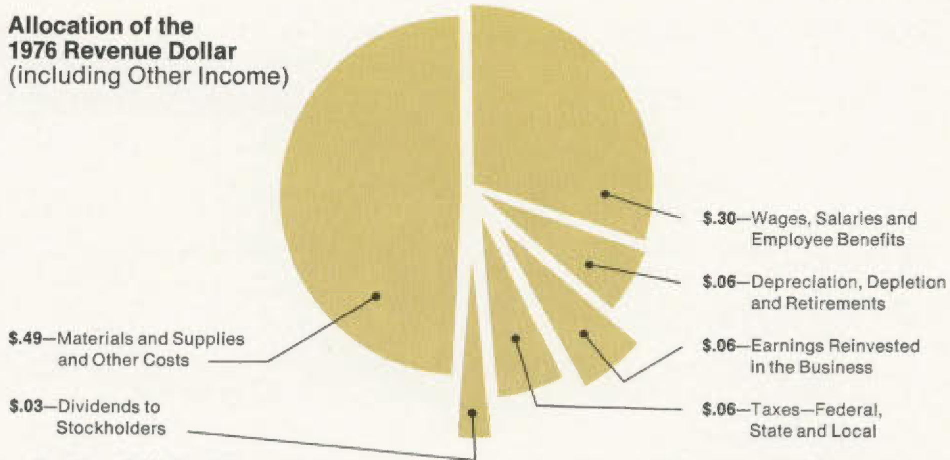
Financing—Consolidated indebtedness aggregated $878.9 million at December 31, 1976 including $94.7 million reflected in current liabilities. During 1976, $167.2 million of debt was retired and an additional $14.8 million was converted into common stock. Union Pacific obtained new financing of $306.2 million to fund a significant portion of its capital expenditure program. New indebtedness included $150 million of 8.4% Corporate Debentures, rated double "A", due 1987 to 2001 and $86.2 million of railroad equipment trust agreements rated triple "A". During 1976 the Corporation used commercial paper as temporary and interim financing, rather than borrowing under its credit agreement, in order to minimize interest costs. At December 31, 1976, the entire $170 million in lines of credit and credit agreement was available for use. Interest expense of $60.7 million was $12.3 million higher than 1975 due principally to higher levels of borrowings. Debt as a percentage of consolidated capitalization increased slightly to 27% at December 31, 1976, compared with 25.6% the year before.

On January 20, 1977, the Railroad sold $60 million of equipment trust certificates which will mature in 15 equal annual installments through 1992. This issue, which received a triple "A" rating from the two major rating agencies, was the largest serial maturity equipment trust issue ever sold by an American railroad.

Federal Income Taxes—The 1976 provision for Federal income taxes was $59.5 million, an increase of $20.5-million from 1975. The increase was due primarily to higher taxable income, offset in part by an increase of $16.2-million of higher investment tax credits stemming primarily from expansion of the Corpus Christi refinery.

Stockholders' Equity—Stockholders' investment in Union Pacific aggregated $2.0 billion at December 31, 1976, an increase of $142.4 million over last year, while return on investment advanced to nearly 10%. Book value per common share, after giving effect to a two-for-one common stock split effective January 27, 1977, also increased $2.55 to $41.74 at December 31, 1976. The stock split, intended to broaden the ownership and marketability of the common stock, was approved at a special meeting of the stockholders on January 18, 1977. The 47,050,846 shares of common stock outstanding were held by 65,751 stockholders of record on December 31, 1976, while the 357,177 shares outstanding of 4¾ percent convertible preferred stock, Series A, were held by 1,855 stockholders of record. The $25.2 million principal amount of 4¾ percent debentures outstanding at the close of the year were held by 6,809 owners of record.

Allocation of the 1976 Revenue Dollar
(including Other Income)



Common stock dividends declared during 1976 amounted to $68.9 million for an increase from 1975 of $4.2 million or 6%. On November 18, 1976, the Board of Directors increased the quarterly dividend 21% from $0.35 to $0.425 after giving effect to the stock split. Common dividends declared increased from $1.40 per share in 1975 to $1.475 in 1976. Union Pacific has paid dividends to its common shareholders for 77 consecutive years. Dividends of $0.475 per share were paid on outstanding preferred stock.

1975 Operating Results in Retrospect— Union Pacific Corporation revenues and sales for 1975 were $1.76 billion, an increase of $155.9 million or 10% over 1974. Earnings for 1975 reached $148.6 million, an increase of $23.4-million or 19% over 1974 net income. Earnings per share of common stock in 1975 (after giving effect to the two-for-one common stock split) were $3.21 compared with $2.73 for 1974.

Earnings of Union Pacific Railroad Company decreased $15.3 million or 15% while revenues increased by $4.1-million. Three general freight rate increases put into effect during the year barely offset the effect on revenues of a decline in freight volume due to overall weakness in the economy. Railroad operating costs increased $44.1 million over 1974 reflecting $15.4 million of higher wages and employee benefits and $11.3 million in additional costs of material and supplies. Other operating costs were adversely affected by a decline of $13.7-million in net equipment rental reimbursements from other railroads as a result of lower business activity.

Net income from oil and gas operations was $52.4 million as compared with $26.2 million in 1974. The increase in 1975 earnings reflected a $40.6-million after-tax gain from the sale of Champlin Petroleum Company's interests in the British North Sea as well as the adverse impact of (1) $8.3-million in additional Federal income taxes due to a reduction in percentage depletion and (2) higher exploration costs (approximately $13.4 million on an after-tax basis) due primarily to substantially higher dry hole and lease acquisition costs associated with unsuccessful drilling operations in Peru, The Philippines and Indonesia. The after-tax impact of Champlin's 1975 and 1974 provisions for losses-lease acquisition costs associated with nine offshore Florida tracts of $31.6-million and $31.2 million, respectively, completely reserved its investment in such leases.

Champlin's sales increased $138.2-million or 24% primarily as a result of increased refined product sales due to pass-through to customers of increased crude oil costs, entitlement purchases and import fees on foreign oil. Sales of crude oil, plant products and natural gas were higher than in 1974 despite slight decreases in production reflecting improved prices for "new-and-released" oil and increased area prices for natural gas allowed by the Federal Power Commission. Champlin's operating costs increased $156.8 million or 28% over 1974 as a result of continued increases in the cost of crude oil and substantially higher exploration costs.

Rocky Mountain Energy Company's net income of $12.4 million represented more than a three-fold gain over the $4.0 million of the preceding year. Increased development of coal resulting from start-up of operations during 1975 of the Medicine Bow, Wyoming joint coal venture contributed significantly to the increase as did improved equity earnings from Stauffer of Wyoming and higher royalty income as a result of more favorable prices for coal and trona. These improvements were partially offset by an increase in the cost of exploration and development of coal and uranium as this subsidiary continued to expand its development of these resources in response to higher demand.

Net income of $3.6 million for Upland Industries Corporation increased slightly from $3.3 million in 1974. Sales in 1975 included an 18-acre parcel of property at Terminal Island, California and two California residential properties.

Interest expense increased $8.4-million in 1975 due to higher levels of borrowings.

Federal income taxes decreased in 1975 by $16.4 million due to substantially higher investment tax credits and capital gains benefits from the sale of Champlin's interests in the North Sea, offset in part by additional taxes due to a reduction in percentage depletion.

Market Price: (adjusted for stock split)	1976 High	1976 Low	1975 High	1975 Low
Common Stock				
1st Quarter	$ 43⅝	$ 38	$ 37³⁄₁₆	$ 31
2nd Quarter	46½	40⅞	41⅛	33¾
3rd Quarter	46⅛	42⅜	39	30⅞
4th Quarter	51¼	41⁹⁄₁₆	39⅛	33
Preferred Stock				
1st Quarter	$ 15	$ 13⅛	$ 12⅞	$ 11
2nd Quarter	16¼	14¼	14⅛	11¾
3rd Quarter	16	14¾	13½	10¾
4th Quarter	17⅝	14¾	13⅝	11¾

Statement of Consolidated Income

	(Thousands of Dollars) 1976	1975
Revenues and Sales:		
Transportation revenues	**$1,174,544**	$1,004,342
Sales	**849,722**	750,967
Total	**2,024,266**	1,755,309
Operating Costs:		
Salaries, wages and employee benefits	**614,351**	534,601
Crude oil and other petroleum raw materials	**468,727**	454,330
Materials and supplies	**273,559**	224,373
Depreciation, depletion and retirements (Note 3)	**124,683**	130,779
Provision for losses and amortization of lease acquisition costs (Note 4)	**5,033**	68,476
State and local taxes	**54,097**	52,960
Other operating costs	**216,661**	148,654
Total	**1,757,111**	1,614,173
Operating Income	**267,155**	141,136
Other Income:		
Gain on sale of North Sea interests (Note 5)	**—**	59,878
Other—net	**40,698**	34,915
Total	**40,698**	94,793
Interest Expense	**(60,672)**	(48,352)
Income Before Federal Income Taxes	**247,181**	187,577
Federal Income Taxes (Note 6)	**59,506**	38,957
Income Before Extraordinary Item	**187,675**	148,620
Extraordinary Item, Adjustment of Amtrak Reserve Net of Applicable Federal Income Taxes (Note 8)	**7,500**	—
Net Income	**$ 195,175**	$ 148,620
Earnings Per Share, After Giving Effect to Stock Split (Notes 13 and 14):		
Primary:		
Income before extraordinary item	**$4.02**	$3.21
Extraordinary item	**.16**	—
Net income	**4.18**	3.21
Fully diluted:		
Income before extraordinary item	**3.91**	3.12
Extraordinary item	**.16**	—
Net income	**4.07**	3.12

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, 1976	December 31, 1975
Current Assets		
Cash (Note 7)	$ 42,843	$ 33,494
Accounts receivable—net	237,802	218,678
Inventories (Note 1)	131,258	121,822
Deferred Federal income tax benefit	29,514	57,971
Other current assets	31,799	28,217
Total Current Assets	473,216	460,182
Investments (Note 2)		
Investments in affiliated companies	77,374	68,564
Other investments	61,071	61,107
Land held for future development, at cost	53,687	53,876
Total Investments	192,132	183,547
Properties (Notes 3, 4 and 7)	3,899,684	3,675,520
Less accumulated depreciation, depletion and amortization	1,050,126	1,050,104
Properties—Net	2,849,558	2,625,416
Excess of Investment in Consolidated Subsidiaries Over Equities in Recorded Net Assets	71,740	71,740
Other Assets and Deferred Charges	107,100	77,363
Total Assets	$3,693,746	$3,418,248

Liabilities and Stockholders' Equity	December 31, 1976	December 31, 1975
Current Liabilities		
Commercial paper	$ 50,000	$ —
Accounts and wages payable	117,707	141,443
Accrued liabilities:		
Taxes	41,751	36,735
Interest	18,360	14,321
Other accrued liabilities	85,909	89,422
Dividends payable	20,688	16,843
Long-term debt due within one year	44,729	29,593
Other current liabilities	6,926	13,636
Total Current Liabilities	386,070	341,993
Long-Term Debt Due After One Year (Note 7)	784,191	725,135
Deferred Federal Income Taxes (Note 6)	478,641	441,738
Other Liabilities and Deferred Credits (Note 8)	77,306	84,249
Stockholders' Equity (page 33)	1,967,538	1,825,133
Total Liabilities and Stockholders' Equity	$3,693,746	$3,418,248

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) 1976	1975
Source of Funds		
Operations:		
Income before extraordinary item	**$187,675**	$148,620
Gain on sale of North Sea interests—net of income taxes	**—**	(40,628)
Charges not requiring current outlay of working capital:		
Depreciation and other non-cash charges	**121,063**	116,367
Provision for losses and amortization of lease acquisition costs	**5,033**	68,476
Provision for deferred Federal income taxes—non-current	**30,533**	62,949
Working capital provided by operations	**344,304**	355,784
Proceeds from long-term financing	**256,175**	283,900
Working capital provided by sale of North Sea interests	**—**	49,902
Other items—net	**41,072**	32,223
	641,551	721,809
Application of Funds		
Dividends declared	**69,152**	65,011
Reduction of long-term debt	**197,119**	110,329
Capital expenditures:		
Transportation	**177,943**	205,780
Oil and Gas	**187,135**	205,917
Other	**13,231**	28,053
Changes in funds segregated for capital expenditures	**28,014**	52,393
	672,594	667,483
Net (Decrease) Increase in Working Capital	**(31,043)**	54,326
Working Capital at Beginning of Year	**118,189**	63,863
Working Capital at End of Year	**$ 87,146**	$118,189
Components of (Decreases) Increases in Working Capital		
Cash	**$ 9,349**	$ (973)
Accounts receivable	**19,124**	43,114
Inventories	**9,436**	21,526
Deferred Federal income tax benefit	**(28,457)**	57,971
Commercial paper	**(50,000)**	—
Accounts and wages payable	**23,736**	(55,535)
Other—net	**(14,231)**	(11,777)
Net (Decrease) Increase	**$(31,043)**	$ 54,326

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

Statement of Consolidated Changes in Stockholders' Equity

	(Thousands of Dollars) 1976	1975
Capital Stock (Notes 10, 12 and 14):		
Preferred Stock no par value (authorized 10,000,000 shares); 4¾% Convertible Preferred Stock, Series A; $10 stated value—outstanding:		
Balance at beginning of year (455,227 shares in 1976, 534,527 in 1975)	**$ 4,552**	$ 5,345
Less shares converted into common stock (98,050 shares in 1976, 79,300 in 1975)	**980**	793
Balance at end of year (357,177 shares in 1976, 455,227 in 1975)	**3,572**	4,552
Common Stock, all share amounts restated for stock split (Note 14), $5 par value (authorized 60,000,000 shares)—outstanding:		
Balance at beginning of year (46,452,090 shares in 1976, 45,982,696 in 1975)	**232,260**	229,913
Issuance of Shares upon:		
Conversion of 4¾% Convertible Debentures (516,270 shares in 1976, 346,958 in 1975)	**2,581**	1,735
Conversion of 4¾% Convertible Preferred Stock (34,286 shares in 1976, 27,736 in 1975)	**172**	139
Exercise of Stock Options (48,200 shares in 1976, 94,700 in 1975)	**241**	473
Balance at end of year (47,050,846 shares in 1976, 46,452,090 in 1975)	**235,254**	232,260
Paid-in Surplus:		
Balance at beginning of year	**83,569**	73,161
Issuance of Common Stock in excess of par upon:		
Conversion of 4¾% Convertible Debentures	**12,163**	8,177
Conversion of 4¾% Convertible Preferred Stock	**808**	654
Exercise of Stock Options	**1,397**	1,577
Balance at end of year	**97,937**	83,569
Retained Earnings (Note 7):		
Balance at beginning of year	**1,504,752**	1,421,143
Net Income for the year	**195,175**	148,620
Total	**1,699,927**	1,569,763
Dividends Declared:		
4¾% Convertible Preferred Stock, Series A ($.475 per share)	**(206)**	(239)
Common Stock ($1.475 per share in 1976, $1.40 per share in 1975)	**(68,946)**	(64,772)
Balance at end of year	**1,630,775**	1,504,752
Total Stockholders' Equity	**$1,967,538**	$1,825,133

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) are reflected in the financial statements at equity. All material intercompany transactions are eliminated.

Inventories—Materials and supplies are valued at average cost. Refined products and raw materials—crude oil are valued at cost under the last-in, first-out method (LIFO). Real estate developed and held for sale is carried at the cost of land and improvements thereto; 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) for which 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 Petroleum Company (Champlin) capitalizes intangible drilling and development costs, leasehold costs and external geological and geophysical costs applicable to acquired mineral rights. Non-producing leasehold costs are accounted for on an individual lease basis. Non-producing leasehold costs incurred prior to January 1, 1976 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 probable diminution in value. Non-producing leasehold costs incurred after December 31, 1975 are amortized on a composite basis at rates based on past success experience and average lease life. Costs of such leases deemed worthless are charged to accumulated amortization. The change in accounting for leasehold costs incurred after December 31, 1975 did not significantly affect yearly or quarterly results of operations. 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 are capitalized and subsequently amortized when production commences.

Exploratory Costs—Drilling costs of unsuccessful wells, 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 consisted of the following at December 31:

	($000) 1976	($000) 1975
Materials and supplies	$ 68,901	$ 62,812
Real estate developed and held for sale	27,164	29,927
Refined products	15,227	20,417
Raw materials—crude oil	19,966	8,666
	$131,258	$121,822

The excess of current replacement cost over the carrying value of inventories for which cost has been determined under the LIFO method at December 31, 1976 and 1975 approximated $24,100,000 and $20,500,000, respectively.

Reference is made to the Corporation's 1976 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission (SEC) for unaudited information on the effects of the estimated replacement costs of inventories not carried under the LIFO method.

2. Investments

Investments in affiliates are carried at equity. Net income for the years ended December 31, 1976 and 1975 includes equity in net income of affiliates of $7,864,000 and $5,943,000, respectively.

Other investments at December 31, 1976 and 1975 include $46,791,000 of marketable equity securities carried at written down cost. At December 31, 1976, quoted market value exceeded the value of such securities by approximately $18,377,000, whereas at December 31, 1975, carrying value approximated market value.

Marketable equity securities include an investment in 2,149,319 shares of I.C. Industries, Inc. common stock with a carrying value of $35,195,000 at December 31, 1976. The Corporation has agreed to dispose of the entire investment by 1982. The Corporation amended its original plan of divestiture, under which one-third of the stock was to be sold by the end of 1976, to provide that one-third of the stock is to be sold by the end of 1980 and the remaining stock to be sold by August 10, 1982.

3. Properties

Major property accounts and related charges to income in accordance with the Corporation's accounting policies are listed as follows:

	Properties	Accumulated Depreciation, Depletion and Amortization
	($000)	
	December 31, 1976	
Transportation property:		
Road	$1,153,706	$ 116,976
Equipment	1,721,059	515,553
Other transportation property	11,140	7,050
	2,885,905	639,579
Oil and gas property	944,474	399,194
Other property	69,305	11,353
	$3,899,684	$1,050,126
	December 31, 1975	
Transportation property:		
Road	$1,108,003	$ 111,101
Equipment	1,643,759	479,926
Other transportation property	12,780	6,622
	2,764,542	597,649
Oil and gas property (Note 4)	852,447	441,424
Other property	58,531	11,031
	$3,675,520	$1,050,104

	($000) 1976	($000) 1975
Depreciation, depletion and amortization:		
Transportation property	$ 78,841	$ 74,661
Oil and gas property	26,095	21,773
Other property	1,534	1,502
Drilling costs of unsuccessful wells	16,621	30,670
Other retirements	1,592	2,173
Total	$ 124,683	$ 130,779
Repairs and replacement of track structure charged to income	$ 83,860	$ 71,890

The inflationary trend of the general economy in recent years has resulted in increasingly higher costs being incurred for replacement of "productive capacity." In accordance with generally accepted accounting principles the accompanying financial statements are based on historical costs; hence, the impact of inflation has not been fully reflected therein. Supplementary unaudited information concerning estimated replacement costs of properties may be found in the Corporation's 1976 Form 10-K to be filed with the SEC.

4. Provision for Losses—Lease Acquisition Costs

The 1975 provision includes $60,774,000 for losses associated with Champlin's interest in nine tracts off the Gulf Coast of Florida based upon unsuccessful drilling results. The 1975 provision together with a $60,000,000 provision recorded in 1974 completely reserved Champlin's $120,774,000 investment in such leases.

5. Sale of North Sea Interests

During 1975 Champlin sold its interests in the British North Sea representing a license covering a portion of a major commercial oil field plus related exploration and development expenditures. The transaction resulted in a final cash settlement of $97,537,000 (proceeds from sale of $72,800,000 plus reimbursements principally for capital expenditures from April 1 to October 30, 1975 of $24,737,000), gain before income taxes of $59,878,000 and gain after income taxes of $40,628,000.

6. Federal Income Taxes

An analysis of the components of Federal income tax expense and the related reconciliation between the statutory and effective tax rates for the years ended December 31, 1976 and 1975 follows:

	($000) 1976	1975
Components of Federal income tax expense:		
Federal income tax effect on income for the year:		
Currently payable before investment tax credit	$27,813	$65,134
Deferred provision (a)	79,074	4,978
	106,887	70,112
Less investment tax credit (under "flow-through" method):		
Used in current and prior tax returns	27,297	31,155
Applied in reduction of deferred provision	20,084	—
	47,381	31,155
Net provision for Federal income taxes:		
Currently payable after investment tax credit	516	33,979
Deferred provision	58,990	4,978
	$59,506	$38,957

(a) The deferred provision results from timing differences in the recognition of expenses for tax and financial statement purposes. The sources of these differences and their effects in 1976 and 1975 are as follows:

	($000) 1976	1975
Non-current:		
Excess of depreciation deducted in tax returns over that reflected in financial statements because of accelerated methods of computing depreciation for tax purposes	$34,312	$27,430
Intangible drilling costs capitalized for financial statement purposes but expensed as incurred for tax purposes	8,903	2,325
Provision for offshore Florida lease acquisition costs	—	28,800
Other	7,402	4,394
	50,617	62,949
Current—Provision for offshore Florida lease acquisition costs (Note 4)	28,457	(57,971)
	$79,074	$ 4,978

	1976	1975
Tax rate reconciliation:		
Statutory tax rate	48.0%	48.0%
Decreases in tax rate resulting from:		
Investment tax credit	(19.2)	(16.6)
Depletion of natural resources	(1.6)	(2.0)
Capital gains	(.9)	(7.3)
Dividend exclusions	(.6)	(.8)
Other book-tax differences	(1.6)	(.5)
Effective tax rate	24.1%	20.8%

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. With the exception of one remanded issue and certain other issues set down for separate trial, the Railroad's 1942 tax refund suit against the United States Government was decided by the U.S. Court of Claims and certiorari denied by the U.S. Supreme Court with respect to certain issues decided adversely. The disposition of the remaining issues will determine whether any refund for 1942 will result; however, in the opinion of independent tax counsel, in no event will a net deficiency be payable in connection with this litigation. Settlement negotiations with IRS Appellate Conferees for the years 1943 through 1961 are in their final stages. It is the opinion of management, after consultation with independent tax counsel with respect to the years 1942 through 1973, that the Corporation is adequately accrued for Federal income taxes through December 31, 1976.

7. Debt

Long-term debt as of December 31 (including debt due within one year expected to be refinanced) is summarized below:

	($000) 1976	1975
Equipment Obligations, 5⅜% to 9%, due 1977 to 1991	$426,835	$428,726
Debentures, 8.4%, due 1987 to 2001	150,000	—
Notes, 8.6%, due 1983	100,000	100,000
Refunding Mortgage Bonds, Series C, 2½%, due 1991	43,279	43,279
Convertible Debentures, 4¾%, due 1999	25,177	39,934
Commercial Paper	20,000	62,095
Pollution Control Revenue Bonds, Series A, 7⅜%, due 2005	18,900	18,900
Debenture Bonds, 2⅞%, due 1976	—	32,201
	$784,191	$725,135

At December 31, 1976, $20,000,000 of $70,000,000 in outstanding commercial paper has been classified as long-term debt because the Corporation intends to refinance such obligations by the issuance of commercial paper or long-term debt. At December 31, 1975, the commercial paper, $43,000,000 of equipment obligations and the debenture bonds, due by their terms during 1976, have been classified as long-term debt because the Corporation refinanced such obligations by the issuance of long-term debt in 1976.

The Corporation maintains a single five-year non-cancelable credit agreement for $150,000,000 with interest at prime through June 30, 1977 and prime plus ¼% from July 1, 1977 through June 30, 1979. The Corporation pays a ½% annual commitment fee on the unused portion of the agreement. Unused commitments under the agreement are available to cover any debt due within one year that is classified as long-term.

The following table summarizes commercial paper and credit agreement activity for the years ended December 31:

	1976 ($000)	1975 ($000)
Commercial paper:		
Maximum month-end outstanding	$ 87,860	$100,000
Average daily balance	31,207	88,604
Average interest rate	5.1%	6.5%
Average interest rate on year-end balance	4.6%	5.3%
Credit agreement:		
Maximum month-end outstanding	—	$ 60,000
Average daily balance	—	23,301
Average interest rate	—	8.1%
Interest rate on year-end balance	—	—

In addition to the credit agreement, the Corporation has a $20,000,000 short-term line of credit which was unused at December 31, 1976 and 1975.

With respect to both of the 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 time. During 1976 and 1975 average compensating balances were $17,000,000 and $19,985,000, respectively.

The agreement relating to the refunding mortgage bonds requires annual sinking fund deposits of $430,000. Approximately 3,300 miles of Railroad main and branch line track, certain railway equipment, supplies and other facilities are subject to the lien of the mortgage securing these refunding mortgage bonds. Railway equipment under outstanding equipment trust certificates and purchase contracts is subject to prior lien.

The 4¾% debentures are redeemable at the option of the Corporation through April 1, 1977 at 103.17% of the principal amount and at reduced percentages thereafter. The 4¾% debentures are convertible (see Note 14) into common stock through April 1, 1999 at $28.57 per share (subject to adjustment under certain conditions). During 1976 and 1975, $14,757,500 and $9,917,000, respectively, of debentures were converted into shares of common stock.

The credit agreement and certain indentures contain restrictions relating to the payment of cash dividends. The amount of retained earnings available for cash dividends, under the most restrictive of the covenants, was $245,161,000 at December 31, 1976.

Maturities of long-term debt for each of the five years 1977 through 1981 are $44,729,000, $40,574,000, $40,564,000, $42,074,000 and $41,069,000, respectively. The 1977 maturities do not include debt due within one year which is expected to be refinanced.

8. Extraordinary Item

Effective May 1, 1971, the Railroad elected to participate in the National Railroad Passenger Corporation (Amtrak) which assumed from participating carriers their operating and financial responsibilities for providing intercity rail passenger service. An extraordinary charge to income in 1971 of $65,061,000 (net of applicable Federal income tax benefit of $51,532,000) represented primarily accruals to provide for severance and wage protection payments to employees affected by the Railroad's discontinuance of rail passenger service, write-off of passenger facilities and equipment and the entry fee payable to Amtrak. A review in 1976 indicated an excess accrual. Accordingly, the balance of the accrued liability has been reduced and an adjustment of $7,500,000 (net of applicable deferred Federal income taxes of $5,700,000) is reflected in the accompanying income statement as an extraordinary credit to income. In the opinion of management, after consultation with independent actuaries, the remaining accrued liability of $18,595,000 is adequate for future liabilities relating to the discontinuance of intercity rail passenger service.

9. Pension Plans

The Corporation and its subsidiaries have funded pension plans covering substantially all salaried employees. Actuarial reports issued in 1976 indicate that as of December 31, 1975 unfunded actuarial liabilities amounted to $97,576,000 and the value of vested benefits exceeded market value of pension plan assets by $28,887,000. 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 $16,378,000 in 1976 and $13,472,000 in 1975. Such charges include prior service costs which are being amortized over thirty years.

The Corporation and its subsidiaries also have unfunded pension plans for officers and supervisors and for retirees under a predecessor plan. As of December 31, 1975 actuarial liability and vested benefits amounted to $42,500,000 and $37,000,000, respectively. Charges to operations for the unfunded plans are based upon actual payments to retirees and amounted to $4,260,000 in 1976 and $4,144,000 in 1975. In each year actual retirement payments approximate normal costs plus amortization of prior service costs.

10. Stock Options and Stock Appreciation Rights

The Corporation has two stock option plans (a 1976 Plan and a 1969 Plan). On January 27, 1977, the Corporation's Board of Directors modified the two plans to allow for the two-for-one common stock split (see Note 14). Accordingly, all of the following share amounts and prices are restated. At December 31, 1976 and 1975, there were 1,207,100 and 145,200 shares, respectively, available for granting of additional options to officers and key employees. Outstanding options under the 1969 Plan may be qualified or non-qualified and are exercisable for a period of five and ten years, respectively, at 100% of market value at the date of grant. Options under the 1976 Plan are non-qualified and are exercisable for a period of ten years 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 1976 and 1975 are summarized as follows:

	1976		1975	
	Shares Under Option	Price Range Per Share	Shares Under Option	Price Range Per Share
Balance				
Jan. 1	435,000	$21.07 to $46.07	447,700	$17.19 to $46.07
Granted	346,100	38.44 to 45.10	86,000	31.97 to 38.44
Exercised	(48,200)	21.07 to 40.38	(94,700)	17.19 to 30.22
Expired	(8,000)	34.38 to 38.47	(4,000)	38.47
Balance				
Dec. 31	724,900	$21.07 to $46.07	435,000	$21.07 to $46.07
Exercisable				
Dec. 31	378,800	$21.07 to $46.07	349,000	$21.07 to $46.07

The 1976 Stock Option Plan also provides for granting stock appreciation rights to holders of options, which permit them to surrender the related exercisable options, or any portion thereof, in exchange for cash or stock in an amount equal to the excess of the market price of the common stock on the date the right is exercised over the option price. At December 31, 1976 there were 156,100 shares subject to stock appreciation rights with a related option price per share of $44.57. During 1976, $1,044,000 was charged to income with respect to such rights.

11. Contingent Liabilities, Commitments and Litigation

As of December 31, 1976 the Railroad was contingently liable (a) as guarantor for $41,069,000 in principal, interest and rental payments of various companies and (b) as a participant with other railroads in a service interruption policy for maximum additional premiums of $28,583,000.

At December 31, 1976 Champlin had a joint venture commitment, along with two other partners, for the construction of a $630,000,000 ethylene plant at Corpus Christi, Texas. The partners plan to invest $157,500,000, of which Champlin's share is approximately $59,000,000. The venture intends to raise an additional $472,500,000 through the sale of debt obligations of which the Corporation and Champlin will guarantee $177,200,000. If, during 1977, a definitive capital cost estimate significantly exceeds the original estimate, debt agreements necessary to finance the joint venture are not executed or an unfavorable ruling is received from the Internal Revenue Service, Champlin, or any other joint venture partner, may withdraw and the project will be terminated. In that event, each partner would be required to pay its equity share of all costs incurred to the date of termination plus any penalty payments for cancellation of venture related contracts.

Champlin's operations in the United States are subject to Federal Energy Administration (FEA) regulations which include price and allocation controls. The FEA and certain private parties have challenged Champlin's implementation of certain provisions of these regulations. Management believes Champlin has complied with the regulations and that the final amount of price adjustments or rollbacks as finally determined, if any, will not have a material adverse effect on the consolidated financial position of the Corporation.

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 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.

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

12. Stockholders' Equity

The outstanding preferred stock 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 0.35 of a share of common stock for each preferred share (see Note 14).

Of the unissued common stock, 2,938,836 shares (2,137,592 in 1975) are reserved for issuance upon conversion of the convertible debentures and convertible preferred stock, and exercise of stock options.

13. Earnings Per Share

Earnings per share give effect to the two-for-one common stock split effective January 27, 1977 (see Note 14). Primary earnings per share is based on the weighted average number of common shares outstanding during the year after giving effect to annual preferred stock dividend requirements. Fully diluted earnings per share is based on the weighted average number of shares of common stock and dilutive common stock options outstanding during the year and assumes conversion of each share of convertible preferred stock into 0.35 of a share of common stock and conversion of each $100 principal amount of convertible debentures into 3.5 shares of common stock at the beginning of the year and elimination of the convertible preferred stock dividends and the convertible debenture interest, less the related Federal income tax effect.

14. Subsequent Events

The Corporation's stockholders, at a special meeting on January 18, 1977, voted approval of a common stock split of two shares for one. The split was effective on January 27, 1977 and resulted in an increase in authorized common stock from 30 million to 60 million shares and authorized capital stock from 40 million to 70 million shares. Par value of the common stock was reduced from $10 to $5 per share. The convertibility of the preferred stock and convertible debentures into common shares was changed from 0.175 to 0.35 of a share of common stock for each preferred share and from 1.75 to 3.5 shares of common stock for each debenture, respectively. All common share activity and per share data have been restated to reflect the stock split.

15. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1976:

(Thousands of Dollars, Except Per Share Amounts)

	1976				1975(e)			
	Three Months Ended				Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31
Revenues and sales......	$480,299	$486,956	$503,406	$553,605	$383,719	$402,316	$448,788	$520,486
Operating income (loss) ..	55,390	61,991	69,540	80,234	39,223	(9,847)(b)	57,731	54,029
Income before extraordinary item	35,324	43,999	50,392	57,960(a)	24,512	1,125(b)	78,277(c)	44,706
Net income	35,324	43,999	50,392	65,460(a)	24,512	1,125(b)	78,277(c)	44,706
Earnings per share (d):								
Primary:								
Income before extraordinary item.	$ .76	$ .94	$1.08	$1.24	$ .53	$ .02	$1.69	$ .97
Extraordinary item ..	—	—	—	.16	—	—	—	—
Net income	.76	.94	1.08	1.40	.53	.02	1.69	.97
Fully diluted:								
Income before extraordinary item.	.74	.92	1.05	1.20	.52	.02	1.64	.94
Extraordinary item ..	—	—	—	.16	—	—	—	—
Net income	.74	.92	1.05	1.36	.52	.02	1.64	.94

(a) As more fully described in Note 8, an adjustment to the Amtrak reserve was effected in December 1976. The resulting credit of $7,500,000, after giving effect to the related income taxes, has been reflected as an extraordinary item in the fourth quarter of 1976.

(b) As more fully described in Note 4, operating and net income for the three months ended June 30, 1975 includes a $60,774,000 ($31,602,000 after-tax) provision for losses pertaining to offshore Florida lease acquisition costs.

(c) As more fully described in Note 5, net income for the three months ended September 30, 1975 includes a gain of $59,878,000 ($40,628,000 after-tax) from the sale of Champlin's interests in the British North Sea.

(d) Restated to reflect the two-for-one common stock split, effective January 27, 1977 (see Note 14).

(e) The 1975 quarterly results of operations have not been subjected to limited review procedures by the Corporation's independent accountants.

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, 1976 and 1975 and the related statements of consolidated income, consolidated changes in stockholders' equity and consolidated changes in financial position for the years then ended. 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, 1976 and 1975, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

January 27, 1977

Haskins & Sells

Nine-Year Financial Review

(Dollar Amounts in Millions, Except Per Share Amounts)

Opposite Page—Champlin's McDonald No. 1 was its first successful well in the Overthrust Belt. Located in the Pineview Field in northeastern Utah, the well began commercial production of oil during May 1976.

	1976	1975	1974	1973	1972	1971	1970	1969 (1)	1968 (1)
Revenues and Sales:									
Transportation Revenues	**$1,174.6**	$1,004.3	$1,000.3	$ 882.2	$ 779.4	$ 700.4	$ 677.8	$ 638.6	$ 602.4
Sales	**849.7**	751.0	599.1	342.0	315.0	276.8	259.5	52.9	46.3
Total	**2,024.3**	1,755.3	1,599.4	1,224.2	1,094.4	977.2	937.3	691.5	648.7
Operating Costs:									
Transportation Operating Expenses	**1,014.0**	869.7	825.6	721.5	635.1	570.6	562.5	537.7	508.0
Cost of Sales	**743.1**	744.5	577.2	294.2	285.7	255.2	235.5	34.7	27.3
Total	**1,757.1**	1,614.2	1,402.8	1,015.7	920.8	825.8	798.0	572.4	535.3
Other Income—Net	**40.7**	94.8(2)	24.0	19.2	20.4	23.3	16.4	18.3	14.9
Interest Expense	**60.7**	48.3	40.0	30.6	33.8	35.4	39.7	13.9	11.0
Federal Income Taxes	**59.5**	39.0	55.4	70.0	55.7	49.2	34.6	39.1	40.0
Income Before Extraordinary Item	**187.7(3)**	148.6	125.2	127.1	104.5	90.1(3)	81.4	84.4	77.3
Net Income	**195.2(3)**	148.6	125.2	127.1	104.5	25.1(3)	81.4	84.4	77.3
Earnings Per Share(4):									
Primary:									
Income Before Extraordinary Item	**$4.02(3)**	$3.21	$2.73	$2.81	$2.31	$2.00(3)	$1.82	$1.88	$1.72
Net Income	**4.18(3)**	3.21	2.73	2.81	2.31	.55(3)	1.82	1.88	1.72
Fully Diluted:									
Income Before Extraordinary Item	**3.91(3)**	3.12	2.64	2.68	2.22	1.93(3)	1.76	1.81	—
Net Income	**4.07(3)**	3.12	2.64	2.68	2.22	.55(3)	1.76	1.81	—
Dividends Per Share(4)	**$ 1.475**	$1.40	$1.30	$1.12	$1.00	$1.00	$1.00	$1.00	$1.00
AT DECEMBER 31									
Working Capital	**87.1**	118.2	63.9	128.4	62.3	90.1	100.4	80.7	119.7
Total Assets	**3,693.7**	3,418.2	3,028.5	2,828.4	2,808.6	2,779.7	2,796.8	2,335.3	2,134.5
Long-Term Debt Due After One Year	**784.2**	725.1	551.6	475.1	513.1	544.5	572.3	299.0	219.0
Stockholders' Equity:									
Total	**1,967.5**	1,825.1	1,729.6	1,649.7	1,565.6	1,503.0	1,514.5	1,477.9	1,438.4
Per Common Share(4)	**$41.74**	$39.19	$37.50	$36.18	$34.56	$33.29	$33.76	$32.94	$32.06
FOR THE YEAR									
Capital Expenditures	**378.3**	439.8	404.0	187.5	150.0	178.7	224.6	178.3	110.0
Operating Cash Flow	**369.1**	299.6	300.5	283.1	248.0	221.4	218.4	173.0	164.8
Total Salaries, Wages and Employee Benefits	**641.0**	559.5	539.1	486.5	431.3	389.4	370.0	329.4	313.4
Average Number of Employees	**28,386**	28,191	30,169	29,350	29,732	30,902	32,097	31,416	32,662

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

(2) Includes a $59,878,000 before tax gain from sale of interests in British North Sea.

(3) Net income in 1971 reflects an extraordinary charge of $65,061,000 (net of income tax of $51,532,000) representing the establishment of reserves for participation in Amtrak. The impact of the charge on primary and fully diluted earnings per share was $1.45 and $1.37, respectively. Fully diluted net income per share for 1971 excludes potentially dilutive securities since inclusion would be anti-dilutive. Net income in 1976 reflects an extraordinary credit to income of $7,500,000, representing the elimination of an excess Amtrak reserve balance. The credit increased primary and fully diluted earnings per share $.16.

(4) All per share amounts are restated to reflect the two-for-one common stock split effective January 27, 1977.

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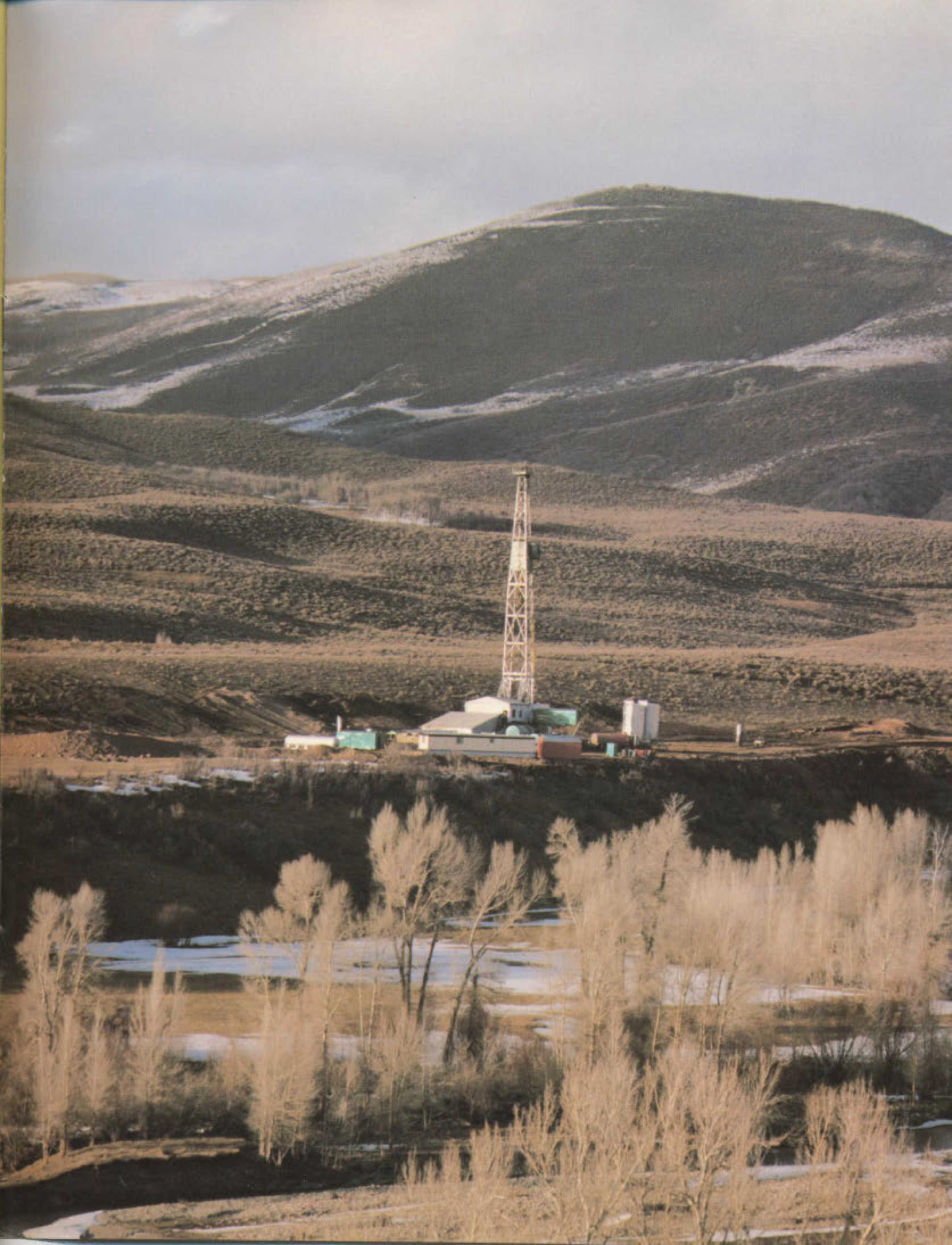

Union Pacific Corporation ▪ 1976 Annual Report

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New York, N.Y. 10022
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OPERATING GROUPS
Transportation
Union Pacific Railroad Company
1416 Dodge Street
Omaha, Nebr. 68179

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

Coal, Uranium 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

ANNUAL MEETING OF STOCKHOLDERS
May 10, 1977—12:00 Noon, Hotel Utah,
Salt Lake City, Utah
The proxy statement
and form of proxy will be mailed
in early April.