

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)  
For the fiscal year ended December 31, 1998  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-6075

UNION PACIFIC CORPORATION  
(Exact name of registrant as specified in its charter)

Utah  
(State or other jurisdiction  
of incorporation or organization)

13-2626465  
(I.R.S. Employer  
Identification No.)

1717 MAIN STREET  
SUITE 5900  
DALLAS, TX  
(Address of principal executive offices)

75201-4605  
(Zip Code)

Registrant's telephone number, including area code (214) 743-5600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
----- Common Stock (Par Value \$2.50 per share)	----- New York Stock Exchange, Inc.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
-----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. .

As of February 26, 1999 the aggregate market value of the registrant's Common Stock held by non-affiliates (using the New York Stock Exchange closing price) was approximately \$10,973,121,951.

The number of shares outstanding of the registrant's Common Stock as of February 26, 1999 was 247,579,048.

Portions of the following documents are incorporated by reference into this Report: (1) registrant's Annual Report to Shareholders for the year ended December 31, 1998 (Parts I, II and IV); and (2) registrant's definitive Proxy Statement for the annual meeting of stockholders to be held on April 16, 1999 (Part III).

PART I

-----

ITEM 1. BUSINESS AND ITEM 2. PROPERTIES

-----

-----

DISCUSSION OF SIGNIFICANT EVENTS AND OPERATIONS

-----

Union Pacific Corporation (UPC, the Corporation or the Company), incorporated in Utah in 1969, consists of two major transportation segments, rail and trucking, operating principally in the United States.

The Corporation's largest segment is Union Pacific Railroad Company (UPRR), including as of May 1, 1995, Chicago and North Western Transportation Company (CNW), and as of October 1, 1996, Southern Pacific Rail Corporation (Southern Pacific or SP) (collectively the Railroad). The Railroad is a Class I railroad that operates the largest rail system in the United States. The Corporation finalized the integration of CNW in 1996 and expects to complete the integration of the operations of Southern Pacific over the next three years.

The Corporation's other major line of business is truck transportation. Overnite Transportation Company (Overnite or OTC), a major interstate trucking company specializing in less-than-truckload (LTL) shipments, serves all 50 states and portions of Canada and Mexico through 165 service centers located throughout the United States.

CORPORATE REORGANIZATION

In 1998, UPC continued implementing its strategy of refocusing on its core rail transportation business. The implementation of this strategy began with the 1994 sale of USPCI, Inc., the Corporation's waste-management business. Since then, the Corporation disposed of its oil and gas operations, sold its logistics business and attempted to sell its trucking operations. At the same time, the Corporation invested heavily in rail assets creating the largest rail system in the United States. The Corporation's rail investments included the 1995 purchase of CNW the nation's eighth largest railroad, the 1996 acquisition of Southern Pacific the country's sixth largest railroad, and the 1997 investment in the Pacific-North and Chihuahua Pacific lines in Mexico.

Key strategic transactions in 1998, 1997 and 1996 were as follows:

OVERNITE DIVESTITURE - In May 1998, the Corporation's Board of Directors approved a formal plan to divest UPC's investment in Overnite through an initial public offering (IPO). UPC recorded a \$262 million after-tax loss from discontinued operations in the second quarter of 1998 to provide for the expected loss from the sale of Overnite (see Note 1 to the Corporation's consolidated financial statements, which are incorporated by reference in Item 8 of this Report on Form 10-K (the financial statements)). During the second half of 1998, UPC attempted to sell Overnite. However, market conditions deteriorated in the third quarter of 1998 to the point that UPC decided not to consummate the IPO. UPC also pursued a sale of OTC to strategic buyers. Based upon market conditions, a divestiture of OTC within the one-year time frame prescribed by generally accepted accounting principles (GAAP) for classification

as discontinued operations was no longer reasonably assured. As a result, in the fourth quarter of 1998, the Corporation reclassified Overnite's results to continuing operations and reversed the \$262 million loss from discontinued operations. In the fourth quarter of 1998, the Corporation also recorded a \$547 million pre- and after-tax charge to reflect an impairment of Overnite's goodwill that was recorded in continuing operations. Previously reported results for the second and third quarters of 1998 have been restated to reflect Overnite's earnings in continuing operations.

SKYWAY - In November 1998, the Corporation completed the sale of Skyway Freight Systems, Inc. (Skyway), a wholly-owned subsidiary. Skyway provided contract logistics and supply chain management services. The proceeds were used to repay outstanding debt. The sale of Skyway generated a net, after-tax loss of \$50 million, of which \$40 million was recognized in the fourth quarter of 1997 (see Notes 3 and 13 to the consolidated financial statements).

MEXICAN RAILWAY CONCESSION - During 1997, the Corporation's rail subsidiary, UPRR, and a consortium of partners were granted a 50-year concession to operate the Pacific-North and Chihuahua Pacific lines in Mexico and a 25% stake in the Mexico City Terminal Company at a price of \$525 million. The Railroad holds a 13% ownership share and has accounted for its interest on the equity method. The consortium assumed operational control of both lines in 1998. In January 1999, the Corporation signed a letter of intent to acquire an additional 13% ownership interest.

SOUTHERN PACIFIC - UPC consummated the acquisition of Southern Pacific in September 1996. SP was acquired for \$4.1 billion (60% of the outstanding Southern Pacific common shares were converted into UPC common stock, and the remaining 40% of the outstanding shares were acquired for cash). UPC initially funded the cash portion of the acquisition with credit facility borrowings, all of which have been subsequently refinanced with other borrowings. The acquisition of Southern Pacific has been accounted for using the purchase method. During 1998, UPC continued its integration of SP's rail operations. This process is expected to be completed over the next three years (see Note 2 to the consolidated financial statements).

RESOURCES - In July 1995, the Corporation's Board of Directors approved a formal plan to divest UPC's natural resources business, Union Pacific Resources Group Inc. (Resources), through an IPO by Resources, followed by a pro-rata distribution of Resources shares owned by the Corporation to its stockholders (the Spin-Off). The IPO of 42.5 million Resources shares at \$21.00 per share was completed in October 1995, and in September 1996, the Corporation's Board of Directors declared a special dividend consisting of the shares of Resources common stock owned by UPC. Resources' results have been reported as discontinued operations in the Corporation's 1996 financial statements.

## SERVICE ISSUES

The Corporation's results in 1998 continued to be adversely affected by the congestion on the Railroad's system that began in the third quarter of 1997. However, the Railroad's service recovery efforts resulted in significant improvements in operating and financial results beginning in the latter half of the year.

**SERVICE RECOVERY** - Congestion in and around Houston and the coastal areas of Texas and Louisiana (the Gulf Coast region) began in the third quarter of 1997. System congestion started in the Gulf Coast region and spread throughout the system during the third and fourth quarters of 1997, and continued to adversely affect the Railroad's operations and financial results in 1998. In response to its operational difficulties, the Railroad adopted certain measures beginning in 1997 designed to alleviate the congestion problems and improve the efficiency and flexibility of rail operations. To ease system congestion, the Railroad focused on reducing the number of cars on the system and restoring system velocity by hiring additional train and engine employees, accelerating and expanding locomotive purchases and leases, improving management of train crews, and using outside carriers for haulage and train switching in congested areas. In 1998, these efforts were supplemented by the institution of directional running in parts of the Gulf Coast region, establishment of a joint dispatching center in Texas, and extensive track maintenance and capacity expansion efforts in UPRR's Central Corridor and southern tier. While in some cases the Railroad's actions temporarily slowed service, they have resulted in improved system velocity. Also in 1998, UPRR instituted several key initiatives including a new long-term strategy to improve the effectiveness of the organization. This effort is focused on culture change, business process improvement and decentralization, each of which is designed to improve customer satisfaction, increase employee involvement and improve operational efficiency and financial results. The combination of all of the steps described above (the Service Recovery Process) has allowed the Railroad to alleviate congestion and improve operations throughout the UPRR system. However, despite these improvements, the Railroad's operations and financial results were significantly impacted by congestion in 1998.

**WEATHER AND OTHER CONGESTION ISSUES** - During 1998, service in the Railroad's Central Corridor between Chicago and Utah was slowed by track maintenance and capacity expansion work that is expected to be completed during 1999. UPRR also experienced congestion on its lines in northern California, in the Los Angeles Basin and on the Sunset Route west of El Paso, Texas. This was caused in part by two derailments that occurred in July 1998, tight crew supply and limited track capacity in that region, and the learning curve associated with the integration of the computer system of Southern Pacific in the region with the Railroad's computer system that commenced in July 1998. The Railroad alleviated this congestion by various measures, including temporarily rerouting trains from this region to other portions of its system. Late in the third quarter and early in the fourth quarter of 1998, the Railroad's operations were also adversely affected by severe weather in the southern portion of its system, including

Hurricane Georges, which disrupted operations in New Orleans and other parts of Louisiana at the end of September, heavy rains that moved from northern Texas through Oklahoma and into the Kansas City area in early October, heavy rains that resulted in severe flooding in central and southern Texas later in October, and heavy rains and flooding across parts of Oklahoma and Kansas in early November. The Railroad was able to respond quickly to these problems by rerouting traffic, repairing damages caused by washouts and restoring service without severe or lengthy disruptions to the Railroad's operations, which reflected the success of the Railroad's Service Recovery Process in addressing service and congestion problems. Despite these external difficulties, the Railroad was able to recoup the financial loss generated in the first half of 1998 and reported net income for the full year of 1998.

#### OPERATIONS

A description of UPC's two major transportation segments, rail and trucking, which operate principally in the United States, follows.

#### RAIL

OPERATIONS - The Railroad is the largest rail system in the United States, with nearly 34,000 route miles linking Pacific Coast and Gulf Coast ports to the Midwest and eastern U.S. gateways and providing several north/south corridors to key Mexican gateways. The Railroad serves the western two-thirds of the country and maintains coordinated schedules with other carriers for the handling of freight to and from the Atlantic Coast, the Pacific Coast, the Southeast, the Southwest, Canada and Mexico. Export and import traffic is moved through Gulf Coast and Pacific Coast ports and across the Mexican and (primarily through interline connections) Canadian borders.

The Railroad is subject to price and service competition from other railroads, motor carriers and barge operators. The Company's main rail competitor is Burlington Northern Santa Fe Corporation and its rail subsidiary, The Burlington Northern and Santa Fe Railway Company (BNSF), which manages the nation's second largest Class I railroad and operates parallel routes in many of the Company's main traffic corridors. In addition, the Company's operations are conducted in corridors served by other competing railroads and by motor carriers. Motor carrier competition is particularly strong for intermodal traffic. Because of the proximity of the Railroad's routes to major inland and Gulf Coast waterways, barge competition can be particularly pronounced, especially for grain and bulk commodities.

Major categories of freight hauled by the Railroad are agricultural products, automotive, chemicals, energy (primarily coal), industrial products and intermodal. Percentages of revenue ton-miles and commodity revenue for the major commodities hauled by the Railroad are presented on page 49 of the 1998 Annual Report to Shareholders (Annual Report) and are incorporated herein by reference.

EMPLOYEES - Union Pacific Corporation employs approximately 65,000 people. Approximately 87% of the Railroad's 53,000 employees are represented by rail unions. During 1996, nearly all of UPRR's unionized workforce ratified five-year

national agreements, which include a combination of general wage increases and lump-sum payments. In addition, the agreements provide for increased flexibility in work rules. Under the conditions imposed by the Surface Transportation Board of the U.S. Department of Transportation (STB) in connection with the Southern Pacific acquisition, labor agreements between the Railroad and the unions representing SP employees must be negotiated before the UPRR and SP rail systems can be fully integrated. To date, the Railroad has successfully reached agreements with the shopcraft, carmen, clerical and maintenance-of-way unions. The negotiations with the operating crafts are proceeding on schedule. The terms of ratified and pending labor agreements are not expected to have a material adverse effect on the Corporation's results of operations. The current national bargaining agreement will end in 2000. The Corporation expects notices for negotiations to be served in November 1999.

A separate Annual Report on Form 10-K for the year ended December 31, 1998, will be filed by UPRR and will contain additional information concerning that company.

#### TRUCKING

**OPERATIONS** - The Corporation's other major line of business is truck transportation. Overnite, a major interstate trucking company specializing in LTL shipments, serves all 50 states and portions of Canada and Mexico through 165 service centers located throughout the United States. Overnite transports a variety of products, including machinery, tobacco, textiles, plastics, electronics and paper products. Overnite experiences intense service and price competition from both regional and national motor carriers.

**EMPLOYEES** - As the nation's largest predominantly non-union single operating trucking company, Overnite is periodically targeted by major labor organization efforts instituted by the International Brotherhood of Teamsters (Teamsters) at many of its service centers. Since year-end 1994, OTC has received 89 petitions for union elections at 66 of its 165 service centers. Twenty-one service centers, representing approximately 14% of Overnite's nationwide workforce, voted for union representation, and the Teamsters have been certified and recognized as the bargaining representative for such employees. Elections affecting approximately 400 additional employees are unresolved, and there are no elections currently scheduled. To date, Overnite has not entered into any collective bargaining agreements with the Teamsters; however, the Company is engaged in collective bargaining negotiations over union contract demands at the 21 represented locations.

**OPERATIONAL INITIATIVES** - During 1998, 1997 and 1996, Overnite benefited from several initiatives aimed at better matching its operations to the current trucking industry environment. These actions included workforce reductions, service center consolidations, centralization of the linehaul management process and pricing initiatives targeting Overnite's lowest margin customers. OTC has also benefited from growth in its customer base generated by continuing improvements in its service levels.

## OTHER INFORMATION

Additional information for UPC's principal business segments is presented on pages 4 through 15, in Note 1 to the consolidated financial statements on pages 36 through 39, and on pages 49 and 50 of the Annual Report, and such information (excluding photographs on pages 4 through 15, none of which supplements the text and which are not otherwise required to be disclosed herein) is incorporated herein by reference. The map of the Corporation's operations on pages 52 and 53 of the Annual Report is also incorporated herein by reference.

**GOVERNMENTAL REGULATION** - UPC's operations are currently subject to a variety of Federal, state and local regulations. The most significant areas of regulation are described below. See also the discussion of certain regulatory proceedings in "Item 3. Legal Proceedings", which is incorporated herein by reference.

The operations of the Railroad and Overnite are subject to the regulatory jurisdiction of the STB, other Federal agencies and various state agencies. The STB has jurisdiction over rates charged on certain regulated rail traffic; freight car compensation; transfer, extension or abandonment of rail lines; and acquisition of control of rail and motor carriers by rail common carriers. Other Federal agencies have jurisdiction over safety, movement of hazardous materials, movement and disposal of hazardous waste and equipment standards. Various state and local agencies have jurisdiction over disposal of hazardous wastes and seek to regulate movement of hazardous materials.

**ENVIRONMENTAL REGULATION** - Subsidiaries of UPC are subject to various environmental statutes and regulations, including the Resource Conservation and Recovery Act (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), and the Clean Air Act (CAA).

RCRA applies to hazardous waste generators and transporters, as well as to persons engaged in treatment and disposal of hazardous waste, and specifies standards for storage areas, treatment units and land disposal units. All generators of hazardous waste are required to label shipments in accordance with detailed regulations and to prepare a detailed manifest identifying the material and stating its destination before waste can be released for offsite transport. The transporter must deliver the hazardous waste in accordance with the manifest and only to a treatment, storage or disposal facility qualified for RCRA interim status or having a final RCRA permit.

Environmental Protection Agency (EPA) regulations under RCRA have established a comprehensive system for the management of hazardous waste. These regulations identify a wide range of industrial by-products and residues as hazardous waste, and specify requirements for "cradle-to-grave" management of such waste from the time of generation through the time of disposal and beyond. States that have adopted hazardous waste management programs with standards at least as stringent as those promulgated by the EPA may be authorized by the EPA to administer all or part of RCRA on behalf of the EPA.

CERCLA was designed to establish a strategy for cleaning up facilities at which hazardous waste or other hazardous substances have created actual or potential environmental hazards. The EPA has designated certain facilities as requiring cleanup or further assessment. Among other things, CERCLA authorizes the Federal government either to clean up such facilities itself or to order persons responsible for the situation to do so. The act created a multi-billion dollar fund to be used by the Federal government to pay for such cleanup efforts. In the event the Federal government pays for such cleanup, it will seek reimbursement from private parties upon which CERCLA imposes liability.

CERCLA imposes strict liability on the owners and operators of facilities in which hazardous waste and other hazardous substances are deposited or from which they are released or are likely to be released into the environment. It also imposes strict liability on the generators of such waste and the transporters of the waste who select the disposal or treatment sites. Liability may include cleanup costs incurred by third persons and damage to publicly owned natural resources. UPC's subsidiaries are subject to potential liability under CERCLA as owners or operators of facilities at which hazardous substances have been disposed of, or as generators or transporters of hazardous substances disposed of at other locations. Some states have enacted, and other states are considering enacting, legislation similar to CERCLA. Certain provisions of these acts are more stringent than CERCLA. States that have passed such legislation are currently active in designating more facilities as requiring cleanup and further assessment.

The operations of the Corporation's subsidiaries are subject to the requirements of the CAA. The 1990 amendments to the CAA include a provision under Title V requiring that certain facilities obtain operating permits. EPA regulations require all states to develop Federally-approvable permit programs. Affected facilities must submit air operating permit applications to the respective states within one year of the EPA's approval of the state programs. Certain UPC railroad facilities may be required to obtain such permits. In addition, in December 1997, the EPA issued final regulations which require that most locomotives purchased or remanufactured after 1999 or 2000 meet certain stringent emissions criteria. While the cost of meeting these requirements may be significant, expenditures are not expected to affect materially the Corporation's financial condition or results of operations.

The operations of UPC's subsidiaries are also subject to other laws protecting the environment, including permit requirements for wastewater discharges pursuant to the National Pollutant Discharge Elimination System and storm-water runoff regulations under the Federal Water Pollution Control Act.

Information concerning environmental claims and contingencies and estimated attendant remediation costs is set forth in Note 12 to the consolidated financial statements on page 48 of the Annual Report. Such information is incorporated herein by reference.



CAUTIONARY INFORMATION - Certain information included in this report contains, and other materials filed or to be filed by the Corporation with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Corporation) contain or will contain, forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Such forward-looking information may include, without limitation, statements that the Corporation does not expect that claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or other matters will have a material adverse effect on its consolidated financial condition, results of operations or liquidity and other similar expressions concerning matters that are not historical facts, and projections or predictions as to the Corporation's financial or operational results. Such forward-looking information is or will be based on information available at that time, and is or will be subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to, whether the Corporation is fully successful in recovering from the effects of the Railroad's congestion-related problems and implementing its financial and operational initiatives, industry competition and legislative and/or regulatory developments, natural events such as severe weather, floods and earthquakes, the effects of adverse general economic conditions, changes in fuel prices, labor strikes, the impact of year 2000 systems problems and the ultimate outcome of shipper claims related to congestion, environmental investigations or proceedings and other types of claims and litigation.

ITEM 3. LEGAL PROCEEDINGS

SOUTHERN PACIFIC ACQUISITION

On August 12, 1996, the STB served a decision (the Decision) approving the acquisition of control of Southern Pacific by the Corporation, subject to various conditions. The acquisition was consummated on September 11, 1996. Various appeals were filed with respect to the Decision, and all such appeals were ultimately consolidated in the U.S. Court of Appeals for the District of Columbia Circuit. All of the appeals have since been withdrawn except the appeal of the Western Coal Traffic League. Oral argument in the case was held on September 11, 1998, and the case is awaiting decision. The Corporation believes that it is unlikely that the disposition of the remaining appeal will have a material adverse impact on its consolidated financial condition or its results of operations.

Among the conditions to the STB's approval of the Southern Pacific acquisition was the requirement that the STB retain oversight jurisdiction for five years to examine whether the conditions imposed under the Decision remain effective to address the competitive harms caused by the merger. On December 21, 1998, the STB served a decision in the second annual general oversight proceeding to review the implementation of the merger and the effectiveness of the conditions imposed under the Decision. The STB concluded that, notwithstanding

the service problems that arose in the western United States following the merger, the merger had thus far not caused any substantial competitive harm. The STB rejected various requested adjustments to the merger conditions and refused to impose additional conditions on the merger other than those imposed in connection with the Gulf Coast Oversight Proceeding (defined below). The STB ordered the Corporation to continue to report quarterly on merger implementation and to provide a comprehensive summary presentation in the progress reports due on July 1, 1999. The STB order also requires interested parties to file comments concerning the next annual oversight proceeding on August 16, 1999, with replies being due September 3, 1999.

SURFACE TRANSPORTATION BOARD PROCEEDINGS  
-----

In addition to the annual oversight proceeding, the Corporation and the Railroad were parties to a separate proceeding before the STB that terminated during the fourth quarter of 1998. This proceeding, which was initiated in March 1998 under the STB's continuing oversight jurisdiction with respect to the merger of the Corporation and Southern Pacific, was for the purpose of considering proposals for new remedial conditions to the merger pertaining to service in the Houston, Texas area and surrounding coastal areas of Texas and Louisiana (the Gulf Coast Oversight Proceeding). Various parties filed applications in the Gulf Coast Oversight Proceeding seeking the imposition of additional conditions to the merger including, among other things, requests by certain parties for conditions that would effectively open up access to shippers on the Railroad's lines and permit competing carriers to serve those shippers. On December 21, 1998, the STB issued a decision in the Gulf Coast Oversight Proceeding which imposed the following additional conditions: (i) a "clear route" condition pursuant to which the Joint Director of the UPRR/BNSF dispatching center in Spring, Texas was granted authority to route traffic through Houston over any available route, even a route over which the owner of a train does not have trackage rights, thereby enhancing efficiency and facilitating the smooth movement of rail traffic through the Houston area; (ii) the granting of approximately four miles of additional trackage rights to BNSF to create a new interchange with a short-line railroad in the Austin, Texas area; and (iii) the imposition of certain annual reporting requirements on the Railroad with respect to the implementation of its infrastructure plan for the Houston/Gulf Coast region. The STB denied all other condition requests, including requests that other railroads be granted "open access" to shippers not currently served by other carriers on the Railroad's lines. The STB stated that the propriety of an "open access" regulatory scheme for the railroad industry is a matter more appropriately addressed by Congress.

The Railroad was also party to another proceeding before the STB that terminated during the fourth quarter of 1998. This proceeding arose as a result of a petition filed by Kansas City Southern Railway Company (KCS) and Texas Mexican Railway Company (Tex Mex) challenging actions taken by UPRR and BNSF to rationalize the operations of the Houston Belt & Terminal Railway Company, of which UPRR and BNSF each owns 50%. On December 21, 1998, the STB entered an order denying this and related petitions filed by KCS and Tex Mex.

BOTTLENECK PROCEEDINGS  
-----

On August 27, 1996, the STB initiated a proceeding asking for arguments and evidence on the issue of whether it should modify its existing regulations regarding the prescription of, and challenge to, rates for rail service over a bottleneck segment (a line of railroad that is served by only one railroad between a junction and an exclusively-served shipper facility). The STB proceeding also referred to pending motions to dismiss three individual complaint proceedings filed by shippers challenging a class rate charged for the movement of coal, two of which named UPRR and SPT as a party thereto. Neither complaint proceeding individually involved a significant exposure for reparations. However, if existing regulation of bottleneck movements were changed, future revenue from such movements, including those covered by the complaint proceedings, could be substantially reduced. On December 31, 1996, the STB served a decision that generally reaffirmed earlier rulings regarding a rail carrier's obligation to provide rates for bottleneck segments and assured the right of rail carriers to differentially price traffic based upon demand. It also dismissed the two complaint proceedings in which UPRR and SPT were defendants. On April 30, 1997, the STB served a decision generally declining to reconsider its December 31, 1996 decision, but clarifying that in certain circumstances a bottleneck destination carrier that does not serve the origin for a traffic movement may be required to provide a common carrier rate for the bottleneck portion of the movement which can be legally challenged before the STB apart from the contract rate for the remainder of the move. The STB decisions were appealed to the U.S. Court of Appeals for the Eighth Circuit. On February 10, 1999, the Eighth Circuit Court of Appeals entered an order affirming the STB's decision and the dismissal of the two complaints against UPRR and SPT. The Court also dismissed a cross-appeal by the railroads challenging the aspect of the STB's decision finding that a shipper could challenge the reasonableness of a published rate over only part of a joint route if the rest of the route was covered by a contract. The ground for the Court's dismissal of the cross-appeal was that no actual controversy involving such a situation was presented in the case before the STB and, accordingly, there was no actual case or controversy for the Court to decide. It is anticipated that the same issues will be decided in a pending appeal before the U.S. Court of Appeals for the District of Columbia Circuit. In that case, which was filed by FMC Corporation and an affiliate with the STB in October 1997 and subsequently appealed to the D.C. Circuit, the Railroad is challenging a December 1997 STB decision requiring it to publish separately challengeable bottleneck segment

rates for the portion of a route not covered by a contract. This appeal had been stayed pending disposition of the appeals by the Eighth Circuit Court of Appeals.

#### CUSTOMER CLAIMS

Certain customers have submitted claims for damages related to shipments delayed by the Railroad as a result of congestion problems, and certain customers have filed lawsuits seeking relief related to such delays. The nature of the damages sought by claimants includes, but is not limited to, contractual liquidated damages, freight loss or damage, alternative transportation charges, additional production costs, lost business and lost profits. In addition, some customers have asserted that they have the right to cancel contracts as a result of alleged material breaches of such contracts by the Railroad. The Corporation has accrued \$456 million for these claims (\$370 million in 1998 and \$86 million in 1997).

#### SHAREHOLDER LITIGATION

The Corporation and certain of its directors and officers are defendants in two purported class actions that have been consolidated into one proceeding. The consolidated complaint alleges, among other things, that the Corporation violated the Federal securities laws by failing to disclose material facts and making materially false and misleading statements concerning the service, congestion and safety problems encountered following the Corporation's acquisition of Southern Pacific in 1996. These lawsuits were filed in late 1997 in the United States District Court for the Northern District of Texas and seek to recover unspecified amounts of damages. Management believes that the plaintiffs' claims are without merit and intends to defend them vigorously. The defendants have moved to dismiss this action, and the motion has been fully briefed.

In addition to the class action litigation, a purported derivative action was filed on behalf of the Corporation and the Railroad in September 1998 in the District Court for Tarrant County, Texas, naming as defendants the then-current and certain former directors of the Corporation and the Railroad and, as nominal defendants, the Corporation and the Railroad. The derivative action alleges, among other things, that the named directors breached their fiduciary duties to the Corporation and the Railroad by approving and implementing the Southern Pacific merger without informing themselves of its impact or ensuring that adequate controls were put in place and by causing UPC and the Railroad to make misrepresentations about the Railroad's service problems to the financial markets and regulatory authorities. The Corporation's Board of Directors established a special litigation committee consisting of three independent directors to review the plaintiffs' allegations and determine whether it is in UPC's best interest to pursue them. The committee has unanimously concluded that further prosecution of the derivative action on behalf of the Corporation and the

Railroad is not in the best interest of either such company. Accordingly, the Corporation and the Railroad have filed a motion with the Court to dismiss the derivative action. The individual defendants also believe that these claims are without merit and intend to defend them vigorously.

LABOR MATTERS  
-----

The General Counsel of the National Labor Relations Board (NLRB) is seeking a bargaining order remedy in 12 cases involving Overnite where a Teamsters local union lost a representation election. A bargaining order remedy would require Overnite to recognize and bargain with the union as if the union had won instead of lost the election and would be warranted only if the following findings are made: (1) the petitioning Teamsters local had obtained valid authorization cards from a majority of the employees in an appropriate unit; (2) Overnite committed serious unfair labor practices; and (3) those unfair labor practices would preclude the holding of a fair election despite the application of less drastic remedies. A thirteenth bargaining order case involving Overnite has tentatively been settled by the parties thereto without imposing a requirement that Overnite bargain with the Teamsters local involved in the case. In four of the remaining 12 cases, an administrative law judge has ruled that the bargaining order remedy is warranted. Overnite has appealed that ruling to the NLRB. Under NLRB case law, a bargaining order remedy would attach retrospectively to the date when, after a union with a showing of majority support demanded recognition, Overnite embarked on an unlawful course of conduct. In the event of such a retroactive effective bargaining order, Overnite would face back pay liability for losses in employee earnings due to unilateral changes in terms or conditions of employment, such as layoffs, reduced hours of work or less remunerative work assignments. Overnite believes it has substantial defenses in the bargaining order cases and intends to continue to defend them aggressively.

ENVIRONMENTAL MATTERS  
-----

The U.S. Environmental Protection Agency (EPA) has brought a civil action against certain subsidiaries of Southern Pacific which have been merged into UPRR, in the U.S. District Court for the District of Colorado alleging violation of the Clean Water Act and the Oil Pollution Act. The complaint identifies seven incidents involving the alleged release of hazardous substances into the waters of the United States and seeks civil penalties of \$25,000 per day and unspecified injunctive relief to prevent future violations. Six of the seven incidents are related to derailments dating back to 1992. Six of the incidents involve alleged releases from ruptured locomotive fuel tanks, and one incident in 1996 involves an alleged release of sulfuric acid near the Tennessee Pass.

The Railroad has been named as a defendant in a civil action brought by the California Department of Fish and Game, Office of Spill Prevention and Response on April 10, 1998. The complaint alleges violations of California Fish and Game Code Section 5650, California Business and Professions Code Section 17200, Civil Code Sections 3479 and 3480, and damage to the waters of California

for which the Department of Fish and Game allege trusteeship. The complaint results from derailments and alleged releases of diesel fuel oil during 1995 in the Feather River Canyon in Butte County, California. The Complaint seeks penalties, exemplary damages, natural resource damages and unspecified injunctive relief.

The Railroad has been named as a defendant in a criminal misdemeanor action brought by the State of California in the Municipal Court of Placer County, California on February 24, 1998. The complaint alleges a violation of California Fish and Game Code Section 5650 as a result of a diesel fuel spill in Norden, California in February 1997. In addition, the California Department of Fish and Game is seeking penalties, monitoring costs and natural resource damages under state water statutes, and the EPA is seeking penalties for violation of the Clean Water Act in connection with the same incident.

In March 1998, the Railroad received notice that the Railroad and Clean Harbors, a waste disposal firm, were the subject of a criminal investigation by the EPA and the Federal Bureau of Investigation. Tank cars containing hazardous waste billed to Clean Harbors' transload facility in Sterling, Colorado were held in the Railroad's Sterling, Colorado rail yard for periods longer than ten days prior to placement in Clean Harbors' facility, allegedly in violation of hazardous waste regulations. The Railroad is cooperating with the investigation and has responded to grand jury subpoenas. A finding of violation could result in significant criminal or civil penalties.

The Railroad has received approximately 20 Notices of Violation (NOVs) from the South Coast Air Quality Management District (the District) relating to fumes emitted from idling diesel locomotives at Slover siding near the Railroad's yard in West Colton, California. Trains awaiting crews or room to enter the West Colton yard were parked at Slover siding with their engines running for various amounts of time, causing exhaust fumes to enter the backyards and homes of residents living along the siding. The District has cited the Railroad for creating a public nuisance pursuant to the California Health and Safety Code and the District's regulations. Each violation carries a maximum civil penalty of \$25,000 per day, which may be increased in some circumstances to \$50,000 per day. Although the Railroad modified its operating procedures for trains entering the West Colton yard to reduce the problem, the District entered an order with respect to the situation which the Railroad believes is an impermissible burden on interstate commerce and is preempted by applicable federal law. The Railroad filed an action in Federal district court seeking to overturn the District's order on those grounds, but it is complying with the order in the interim. The Court denied the Railroad's request for a preliminary injunction but set the matter for summary judgment hearing on July 19, 1999 and trial on September 21, 1999. The Railroad and the District have not entered into discussions concerning settlement of the outstanding NOVs pending resolution of this lawsuit. Accordingly, the exact amount of any payment to the District in connection with the NOVs cannot be determined at this time.

The Railroad has received notification that the District Attorney for San Bernardino County, California has opened an investigation into the Railroad's handling of several hazardous material spills in Barstow and West Colton, California. The incident in Barstow involved a rear-end collision between two trains near Barstow in August 1997 that resulted in a spillage of locomotive diesel fuel and leakage from two tank cars containing toxic chemicals. Three incidents in the West Colton yard in 1998 involved leaking tank cars and spills of diesel fuel from a derailed locomotive. The District Attorney's office is investigating allegations that cleanup procedures were not undertaken promptly and required notices were not given in connection with these incidents. An initial indication of fines exceeding \$250,000 with respect to these incidents has been communicated by the District Attorney's office. While the Railroad expects to enter into settlement negotiations with the District Attorney's office, the exact amount of any fines or penalties that may be required to be paid as a part of any settlement cannot be determined at this time.

The Corporation and its affiliates have received notices from the EPA and state environmental agencies alleging that they are or may be liable under certain Federal or state environmental laws for remediation costs at various sites throughout the United States, including sites which are on the Superfund National Priorities List or state superfund lists. Although specific claims have been made by the EPA and state regulators with respect to some of these sites, the ultimate impact of these proceedings and suits by third parties cannot be predicted at this time because of the number of potentially responsible parties involved, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and/or the speculative nature of remediation costs. Nevertheless, at many of the superfund sites, the Corporation believes it will have little or no exposure because no liability should be imposed under applicable law, one or more other financially able parties generated all or most of the contamination, or a settlement of the Corporation's exposure has been reached although regulatory proceedings at the sites involved have not been formally terminated.

Information concerning environmental claims and contingencies and estimated attendant remediation costs is set forth in Note 12 to the consolidated financial statements on page 48 of the Annual Report. Such information is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Executive Officers of the Registrant and  
 -----  
 Principal Executive Officers of Subsidiaries  
 -----

NAME ----	POSITION -----	AGE ---	BUSINESS EXPERIENCE DURING PAST FIVE YEARS -----
Richard K. Davidson	Chairman, President and Chief Executive Officer of UPC and Chairman and Chief Executive Officer of the Railroad	57	(1)
Gary M. Stuart	Executive Vice President - Finance	58	(2)
L. Merrill Bryan, Jr.	Senior Vice President - Information Technologies	55	(3)
Barbara W. Schaefer	Senior Vice President - Human Resources	45	(4)
Robert F. Starzel	Senior Vice President - Corporate Relations	58	(5)
Carl W. von Bernuth	Senior Vice President, General Counsel and Corporate Secretary	55	(6)
James R. Young	Senior Vice President - Finance and Controller	46	(7)
Charles R. Eisele	Vice President - Strategic Planning	49	(8)
Bernie R. Gutschewski	Vice President - Taxes	48	(9)
Mary E. McAuliffe	Vice President - External Relations	52	Current Position
Mary S. Jones	Vice President and Treasurer	46	(10)
Gary F. Schuster	Vice President Corporate Relations	57	Current Position
Jerry R. Davis	Vice Chairman of the Railroad	60	(11)
James A. Shattuck	Vice Chairman of the Railroad	59	(12)



NAME ----	POSITION -----	AGE ---	BUSINESS EXPERIENCE DURING PAST FIVE YEARS -----
Ivor J. Evans	President and Chief Operating Officer of the Railroad	56	(13)
Dennis J. Duffy	Executive Vice President Operation of the Railroad	48	(14)
John J. Koraleski	Executive Vice President - Marketing and Sales of the Railroad	48	(15)
R. Bradley King	Executive Vice President - Network Design and Integration of the Railroad	51	(16)
Leo H. Suggs	Chairman and Chief Executive Officer of Overnite	60	(17)

EXECUTIVE OFFICERS OF THE REGISTRANT AND  
PRINCIPAL EXECUTIVE OFFICERS OF SUBSIDIARIES (CONTINUED)

- (1) Mr. Davidson was elected Chairman and Chief Executive Officer effective January 1, 1997. He became President of UPC effective May 1994 and was also Chief Operating Officer of UPC from November 1995 to December 1996. He was President and Chief Executive Officer of the Railroad until August 1995, Chairman of the Railroad until November 1996 and Chairman and Chief Executive Officer of the Railroad since November 1996.
- (2) Mr. Stuart was elected to his current position effective June 1998. Prior thereto, he was Vice President and Treasurer of UPC.
- (3) Mr. Bryan was elected to his current position effective May 1997. Prior thereto, he was President and Chief Executive Officer of Union Pacific Technologies, Inc., a former subsidiary of UPC.
- (4) Ms. Schaefer was elected to her current position effective April 1997. From April 1994 to April 1997 she was Vice President Human Resources of the Railroad. Prior thereto, she was Director of Compensation and Human Resources Information Services of UPC.
- (5) Mr. Starzel was elected to his current position effective April 1998. From September 1996 to April 1998 he was Vice President Western Region of the Railroad and prior thereto he was Vice Chairman of Southern Pacific Rail Corporation.
- (6) Mr. von Bernuth was elected Corporate Secretary effective April 1997. He has been Senior Vice President and General Counsel during the past five years.
- (7) Mr. Young was elected Controller of UPC and Senior Vice President - Finance of the Railroad effective March 1999 and Senior Vice President - Finance of UPC effective June 1998. He served as Treasurer of the Railroad from June 1998 to March 1999. He was Vice President - Customer Service Planning and Quality of the Railroad from April 1998 to June 1998, Vice President - Quality and Operations Planning from September 1997 to April 1998, Vice President - Finance and Quality from September 1995 to September 1997, and prior thereto he was Vice President - Re-engineering of the Railroad.
- (8) Mr. Eisele was elected to his current position effective March 1999. He was Vice President-Strategic Planning from September 1997 to March 1999. He was Vice President Purchasing for the Railroad from April 1994 to September 1997. Prior thereto, he was Vice President Human Resources for the Railroad.
- (9) Mr. Gutschewski was elected Vice President Taxes effective August 1998. Prior thereto, he was Assistant Vice President Tax and Finance Management of the Railroad.

- (10) Ms. Jones was elected to her current position effective March 1999. She served as Vice President Investor Relations from June 1998 to March 1999. She was Assistant Vice President Treasury and Assistant Treasurer of UPC from September 1996 to June 1998 and prior thereto she was Assistant Treasurer of UPC.
- (11) Mr. Davis was elected to his current position in September 1998 and will serve in such position until his retirement effective March 31, 1999. From November 1996 to September 1998 he was President and Chief Operating Officer of the Railroad. From September 1996 to November 1996 he served as President SP Rail Operations. From February 1995 to September 1996 he served as President and Chief Executive Officer of Southern Pacific Rail Corporation. Prior thereto, he served as Executive Vice President and Chief Operating Officer of CSX Transportation, Inc., a company engaged in transportation including railroad; ocean container-shipping; intermodal and trucking; and contract logistics.
- (12) Mr. Shattuck was elected to his current position effective March 1999. Prior thereto, he served as Executive Vice President - Marketing and Sales of the Railroad.
- (13) Mr. Evans was elected to his current position effective September 1998. Prior thereto, he was Senior Vice President of Emerson Electric Company, a company engaged in the design, manufacture and sale of electrical, electromechanical, and electronic products and systems.
- (14) Mr. Duffy was elected to his current position effective September 1998. He was Senior Vice President - Safety Assurance and Compliance Process from October 1997 to September 1998. He was Senior Vice President - Customer Service and Planning of the Railroad from November 1995 to October 1997. From May 1995 to November 1995 he was Vice President Quality - and Network Planning of the Railroad. He was Vice President - Quality of the Railroad from January 1995 to May 1995. Prior thereto, he was Assistant Vice President - Quality of the Railroad.
- (15) Mr. Koraleski was elected to this position effective March 1999. He served as Controller of UPC from August 1998 to March 1999 and as Executive Vice President - Finance of the Railroad from May 1996 to March 1999. Prior to May 1996, he was Executive Vice President Finance - and Information Technologies of the Railroad.
- (16) Mr. King was elected to his current position effective September 1998. He was Executive Vice President - Operations from October 1997 to September 1998. He was Vice President - Transportation of the Railroad from November 1995 to October 1997. Prior thereto, he was Vice President - Risk Management of the Railroad.
- (17) Mr. Suggs was elected to his current position in April 1996. Prior thereto, he was President and Chief Executive Officer of Preston Trucking Company, Inc., a company engaged in truck transportation.

PART II

-----

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

-----

Information as to the markets in which UPC's Common Stock is traded, the quarterly high and low prices for such stock, the dividends declared with respect to the Common Stock during the last two years, and the approximate number of stockholders of record at January 29, 1999 is set forth under Selected Quarterly Data and Stockholders and Dividends on page 49 of the Annual Report. Information as to restrictions on the payment of dividends with respect to the Corporation's Common Stock is set forth in Note 7 to the consolidated financial statements on page 44 of the Annual Report. All such information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

-----

Selected Financial Data for the Corporation for each of the last 10 years is set forth under the Ten-Year Financial Summary on page 51 of the Annual Report. All such information is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

-----

Information as to UPC's financial condition, changes in financial condition, results of operations, cash flows, liquidity and capital resources, and other matters is set forth in the Financial Review on pages 16 through 30 of the Annual Report. All such information is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

-----

Information concerning market risk sensitive instruments is set forth under Other Matters on pages 26 and 27 of the Annual Report and in Note 4 to the consolidated financial statements on pages 40 and 41 of the Annual Report. All such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

-----

The Corporation's Consolidated Financial Statements, Significant Accounting Policies, Notes to the Financial Statements, Business Segment Information and Independent Auditors' Report are presented on pages 31 through 48 of the Annual Report. Selected quarterly financial data are set forth under Selected Quarterly Data on page 49 of the Annual Report. All such information is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

-----

None.

PART III

-----

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

-----

(a) Directors of Registrant.

Information as to the names, ages, positions and offices with UPC, terms of office, periods of service, business experience during the past five years and certain other directorships held by each director or person nominated to become a director of UPC is set forth in the Election of 13 Directors segment of the Proxy Statement and is incorporated herein by reference.

(b) Executive Officers of Registrant.

Information concerning the executive officers of UPC and its subsidiaries is presented in Part I of this Report under Executive Officers of the Registrant and Principal Executive Officers of Subsidiaries.

(c) Section 16(a) Compliance.

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth in the Section 16(a) Beneficial Ownership Reporting Compliance segment of the Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

-----

Information concerning compensation received by UPC's directors and certain executive officers is presented in the Compensation of Directors, Compensation Committee Interlocks and Insider Participation, Report on Executive Compensation, Summary Compensation Table, Option/SAR Grants Table, Option/SAR Exercises and Year-End Value Table, Defined Benefit Plans and Five-Year Performance Comparison segments of the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

-----

Information as to the number of shares of UPC's equity securities beneficially owned as of February 8, 1999 by each of its directors and nominees for director, its five most highly compensated executive officers, its directors and executive officers as a group and certain beneficial owners is set forth in the Election of 13 Directors, Security Ownership of Management, and Security Ownership of Certain Beneficial Owners segments of the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

-----

Information on related transactions is set forth in the Certain Relationships and Related Transactions and Compensation Committee Interlocks and Insider Participation segments of the Proxy Statement and is incorporated herein by reference.

PART IV

-----

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

-----

(a) (1) and (2) Financial Statements and Schedules

-----

The Consolidated Financial Statements, Significant Accounting Policies, Notes to the Financial Statements and Independent Auditors' Report on pages 31 through 48, inclusive, of the Annual Report are incorporated herein by reference.

No schedules are required to be filed because of the absence of conditions under which they would be required or because the required information is set forth in the consolidated financial statements referred to above.

(3) Exhibits

-----

Items 10(f) through 10(q) below constitute management contracts and executive compensation arrangements required to be filed as exhibits to this report.

- 3(a) Revised Articles of Incorporation of UPC, as amended through April 25, 1996, are incorporated herein by reference to Exhibit 3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
- 3(b) By-Laws of UPC, as amended effective as of November 19, 1998, are incorporated herein by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed November 25, 1998.
- 4 Pursuant to various indentures and other agreements, UPC has issued long-term debt; however, no such agreement has securities or obligations covered thereby which exceed 10% of the Corporation's total consolidated assets. UPC agrees to furnish the Commission with a copy of any such indenture or agreement upon request by the Commission.
- 10(a) Amended and Restated Anschutz Shareholders Agreement, dated as of July 12, 1996, among UPC, UPRR, The Anschutz Corporation (TAC), Anschutz Foundation (the Foundation) and Mr. Philip F. Anschutz, is incorporated herein by reference to Annex D to the Joint Proxy Statement/Prospectus included in Post-Effective Amendment No. 2 to UPC's Registration Statement on Form S-4 (No. 33-64707).

- 10(b) Amended and Restated Registration Rights Agreement, dated as of July 12, 1996, among UPC, TAC and the Foundation is incorporated herein by reference to Annex H to the Joint Proxy Statement/Prospectus included in Post-Effective Amendment No. 2 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(c) Amended and Restated Registration Rights Agreement, dated as of July 12, 1996, among UPC, UP Holding Company, Inc., Union Pacific Merger Co. and Southern Pacific Rail Corporation (SP) is incorporated herein by reference to Annex J to the Joint Proxy Statement/Prospectus included in Post-Effective Amendment No. 2 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(d) Agreement, dated September 25, 1995, among UPC, UPRR, Missouri Pacific Railroad Company (MPRR), SP, Southern Pacific Transportation Company (SPT), The Denver & Rio Grande Western Railroad Company (D&RGW), St. Louis Southwestern Railway Company (SLSRC) and SPCSL Corp. (SPCSL), on the one hand, and Burlington Northern Railroad Company (BN) and The Atchison, Topeka and Santa Fe Railway Company (Santa Fe), on the other hand, is incorporated by reference to Exhibit 10.11 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(e) Supplemental Agreement, dated November 18, 1995, between UPC, UPRR, MPRR, SP, SPT, D&RGW, SLSRC and SPCSL, on the one hand, and BN and Santa Fe, on the other hand, is incorporated herein by reference to Exhibit 10.12 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(f) The Executive Incentive Plan of UPC, amended April 27, 1995, is incorporated herein by reference to Exhibit 10(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- 10(g) The Supplemental Pension Plan for Officers and Managers of UPC and Affiliates, as amended and restated, is incorporated herein by reference to Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1993.
- 10(h) Letter Agreement, dated September 8, 1998, between UPC and Mr. Ivor J. Evans, is incorporated herein by reference to Exhibit 10.1 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.

- 10(i) Letter Agreement, dated September 11, 1996, between UPC and Robert Starzel.
- 10(j) Employment Agreement, dated as of October 26, 1994, between SP and SPT, on the one hand, and Robert F. Starzel, on the other hand, is incorporated herein by reference to Exhibit 10.10 to SP's Annual Report on Form 10-K for the year ended December 31, 1994.
- 10(k) The 1988 Stock Option and Restricted Stock Plan of UPC, as amended as of September 24, 1998, is incorporated herein by reference to Exhibit 10.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10(l) The 1993 Stock Option and Retention Stock Plan of UPC, as amended as of September 24, 1998, is incorporated herein by reference to Exhibit 10.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10(m) The Pension Plan for Non-Employee Directors of UPC, as amended January 25, 1996 is incorporated herein by reference to Exhibit 10(w) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.
- 10(n) The Executive Life Insurance Plan of UPC, as amended October 1997, is incorporated herein by reference to Exhibit 10(t) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10(o) The UPC Stock Unit Grant and Deferred Compensation Plan for the Board of Directors, as amended January 28, 1999.
- 10(p) Charitable Contribution Plan for Non-Employee Directors of Union Pacific Corporation is incorporated herein by reference to Exhibit 10(z) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.
- 10(q) Written Description of Other Executive Compensation Arrangements of Union Pacific Corporation.
- 12 Ratio of Earnings to Fixed Charges.



- 13 The inside front cover ("Financial Highlights"), as well as, pages 1 through 53, inclusive, of UPC's Annual Report to Shareholders for the year ended December 31, 1998, but excluding photographs set forth on pages 1 through 15, none of which supplements the text and which are not otherwise required to be disclosed in this Annual Report on Form 10-K.
- 18 Letter from Independent Auditors regarding change in accounting principle.
- 21 List of the Corporation's significant subsidiaries and their respective states of incorporation.
- 23 Independent Auditors' Consent.
- 24 Powers of attorney executed by the directors of UPC.
- 27(a) Financial Data Schedule.
- 27(b) Financial Data Schedule (restated for the periods ended March 31, June 30 and September 30, 1998).
- 27(c) Financial Data Schedule (restated for the periods ended March 31, June 30 and September 30, 1997).
- 27(d) Financial Data Schedule (restated for the periods ended March 31, June 30 and September 30, 1996).
- 27(e) Financial Data Schedule (restated for the years ended December 31, 1997, 1996 and 1995).
- 99(a) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the UPC Thrift Plan - to be filed by amendment.
- 99(b) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the Union Pacific Fruit Express Company Agreement Employee 401(k) Retirement Thrift Plan - to be filed by amendment.
- 99(c) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the Union Pacific Agreement Employee 401(k) Retirement Thrift Plan - to be filed by amendment.
- 99(d) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the Chicago and North Western Railway Company Profit Sharing and Retirement Savings Program - to be filed by amendment.

99(e) Financial Statements for the Fiscal Year ended December 31, 1998  
required by Form 11-K for the Southern Pacific Rail Corporation  
Thrift Plan - to be filed by amendment.

(b) Reports on Form 8-K  
-----

On October 19, 1998, UPC filed a Current Report on Form 8-K describing a shareholder lawsuit discussed in Item 3. Legal Proceedings in this Form 10-K, and filing certain documents in connection with UPC's Registration Statements on Form S-3 for debt issued under the Corporation's Medium Term Note Program. This Report was re-filed in its entirety on October 20, 1998 to provide the required conformed signature that was inadvertently omitted from the original filing.

On October 26, 1998, UPC filed a Current Report on Form 8-K announcing UPC's financial results for the third quarter of 1998.

On November 25, 1998, UPC filed a Current Report on Form 8-K announcing certain amendments to UPC's by-laws adopted by UPC's Board of Directors on November 19, 1998, and filing a copy of such by-laws, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 25th day of March, 1999.

UNION PACIFIC CORPORATION

By /s/ Richard K. Davidson  
-----  
Richard K. Davidson, Chairman,  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below, on this 25th day of March, 1999, by the following persons on behalf of the registrant and in the capacities indicated.

PRINCIPAL EXECUTIVE OFFICER  
AND DIRECTOR:

/s/ Richard K. Davidson  
-----  
Richard K. Davidson, Chairman,  
President, Chief Executive  
Officer and Director

PRINCIPAL FINANCIAL OFFICER:

/s/ Gary M. Stuart  
-----  
Gary M. Stuart, Executive  
Vice President - Finance

PRINCIPAL ACCOUNTING OFFICER:

/s/ James R. Young  
-----  
James R. Young,  
Senior Vice President - Finance  
and Controller

SIGNATURES - (Continued)

DIRECTORS:

- - - - -

Philip F. Anschutz*	Elbridge T. Gerry, Jr.*
Robert P. Bauman*	William H. Gray, III*
Richard B. Cheney*	Judith Richards Hope*
E. Virgil Conway*	Richard J. Mahoney*
Thomas J. Donohue*	John R. Meyer*
Spencer F. Eccles*	Thomas A. Reynolds, Jr.*
Ivor J. Evans*	Richard D. Simmons*

\* By /s/ Thomas E. Whitaker  
-----  
Thomas E. Whitaker, Attorney-in-fact

UNION PACIFIC CORPORATION  
EXHIBIT INDEX

EXHIBIT No. -----	DESCRIPTION -----
FILED WITH THIS STATEMENT -----	
10(i)	Letter Agreement with Robert Starzel
10(o)	The UPC Stock Unit Grant and Deferred Compensation Plan for the Board of Directors, as amended January 28, 1999.
10(q)	Written Description of Other Executive Compensation Arrangements of Union Pacific Corporation
12	Ratio of Earnings to Fixed Charges
13	The inside front cover ("Financial Highlights") as well as, pages 1 through 53, inclusive, of UPC's Annual Report to Shareholders for the year ended December 31, 1998, but excluding photographs set forth on pages 1 through 15, none of which supplements the text and which are not otherwise required to be disclosed in this Annual Report on Form 10-K.
18	Letter from Independent Auditors regarding change in accounting principle
21	Significant Subsidiaries of Union Pacific Corporation
23	Independent Auditors' Consent
24	Powers of attorney executed by the directors of UPC
27(a)	Financial Data Schedule
27(b)	Restated Financial Data Schedule for the Periods ended March 31, June 30 and September 31, 1998
27(c)	Restated Financial Data Schedule for the Periods ended March 31, June 30 and September 31, 1997
27(d)	Restated Financial Data Schedule for the Periods ended March 31, June 30 and September 31, 1996
27(e)	Restated Financial Data Schedule for the Years ended December 31, 1997, 1996 and 1995

INCORPORATED BY REFERENCE

- 
- 3(a) Revised Articles of Incorporation of UPC, as amended through April 25, 1996, are incorporated herein by reference to Exhibit 3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
- 3(b) By-Laws of UPC, as amended effective as of November 19, 1998, are incorporated herein by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed November 25, 1998.
- 4 Pursuant to various indentures and other agreements, UPC has issued long-term debt; however, no such agreement has securities or obligations covered thereby which exceed 10% of the Corporation's total consolidated assets. UPC agrees to furnish the Commission with a copy of any such indenture or agreement upon request by the Commission.
- 10(a) Amended and Restated Anschutz Shareholders Agreement, dated as of July 12, 1996, among UPC, UPRR, The Anschutz Corporation (TAC), Anschutz Foundation (the Foundation) and Mr. Philip F. Anschutz, is incorporated herein by reference to Annex D to the Joint Proxy Statement/Prospectus included in Post-Effective Amendment No. 2 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(b) Amended and Restated Registration Rights Agreement, dated as of July 12, 1996, among UPC, TAC and the Foundation is incorporated herein by reference to Annex H to the Joint Proxy Statement/Prospectus included in Post-Effective Amendment No. 2 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(c) Amended and Restated Registration Rights Agreement, dated as of July 12, 1996, among UPC, UP Holding Company, Inc., Union Pacific Merger Co. and Southern Pacific Rail Corporation (SP) is incorporated herein by reference to Annex J to the Joint Proxy Statement/Prospectus included in Post-Effective Amendment No. 2 to UPC's Registration Statement on Form S-4 (No. 33-64707).

- 10(d) Agreement, dated September 25, 1995, among UPC, UPRR, Missouri Pacific Railroad Company (MPRR), SP, Southern Pacific Transportation Company (SPT), The Denver & Rio Grande Western Railroad Company (D&RGW), St. Louis Southwestern Railway Company (SLSRC) and SPCSL Corp. (SPCSL), on the one hand, and Burlington Northern Railroad Company (BN) and The Atchison, Topeka and Santa Fe Railway Company (Santa Fe), on the other hand, is incorporated by reference to Exhibit 10.11 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(e) Supplemental Agreement, dated November 18, 1995, between UPC, UPRR, MPRR, SP, SPT, D&RGW, SLSRC and SPCSL, on the one hand, and BN and Santa Fe, on the other hand, is incorporated herein by reference to Exhibit 10.12 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(f) The Executive Incentive Plan of UPC, amended April 27, 1995, is incorporated herein by reference to Exhibit 10(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- 10(g) The Supplemental Pension Plan for Officers and Managers of UPC and Affiliates, as amended and restated, is incorporated herein by reference to Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1993.
- 10(h) Letter Agreement, dated September 8, 1998, between UPC and Mr. Ivor J. Evans, is incorporated herein by reference to Exhibit 10.1 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10(j) Employment Agreement, dated as of October 26, 1994, between SP and SPT, on the one hand, and Robert F. Starzel, on the other hand, is incorporated herein by reference to Exhibit 10.10 to SP's Annual Report on Form 10-K for the year ended December 31, 1994.

- 10(k) The 1988 Stock Option and Restricted Stock Plan of UPC, as amended as of September 24, 1998, is incorporated herein by reference to Exhibit 10.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10(l) The 1993 Stock Option and Retention Stock Plan of UPC, as amended as of September 24, 1998, is incorporated herein by reference to Exhibit 10.3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.
- 10(m) The Pension Plan for Non-Employee Directors of UPC, as amended January 25, 1996 is incorporated herein by reference to Exhibit 10(w) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.
- 10(n) The Executive Life Insurance Plan of UPC, as amended October 1997, is incorporated herein by reference to Exhibit 10(t) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10(p) Charitable Contribution Plan for Non-Employee Directors of Union Pacific Corporation is incorporated herein by reference to Exhibit 10(z) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.
- 14 Pages 4 through 53, inclusive, of UPC's Annual Report to Shareholders for the year ended December 31, 1998, but excluding photographs set forth on pages 4 through 15, none of which supplements the text and which are not otherwise required to be disclosed in this Annual Report on Form 10-K.
- 99(a) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the UPC Thrift Plan - to be filed by amendment.



- 99(b) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the Union Pacific Fruit Express Company Agreement Employee 401(k) Retirement Thrift Plan - to be filed by amendment.
- 99(c) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the Union Pacific Agreement Employee 401(k) Retirement Thrift Plan - to be filed by amendment.
- 99(d) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the Chicago and North Western Railway Company Profit Sharing and Retirement Savings Program - to be filed by amendment.
- 99(e) Financial Statements for the Fiscal Year ended December 31, 1998 required by Form 11-K for the Southern Pacific Rail Corporation Thrift Plan - to be filed by amendment.

September 11, 1996

Personal & Confidential

Mr. Robert Starzel  
Vice Chairman  
Southern Pacific Rail Corporation  
One Market Plaza, 8th Floor  
San Francisco, CA 94105

Dear Bob:

We are pleased that commencing with the merger (the "Merger") of Southern Pacific Rail Corporation ("SP Rail") into a subsidiary of Union Pacific Corporation, currently expected to occur on September 11, 1996, you will continue in the employment of Union Pacific Railroad Company ("UPRR") and its affiliates as Vice President, Western Region, based in San Francisco, CA.

You will receive an annual base salary of \$350,000 (less applicable taxes and withholding) and, after January, 1997, will participate in the Executive Incentive Plan of Union Pacific Corporation and Subsidiaries with a 1997 bonus guaranteed in the amount of \$200,000 (less applicable taxes and withholding) if employed by UPRR on December 31, 1997. Union Pacific Corporation's officers will recommend to the Compensation, Benefits and Nominating Committee of Union Pacific Corporation's Board (the "Committee") during the 1996 fall compensation cycle that you receive 10,000 Union Pacific Corporation Retention Shares, subject to the terms and conditions of Union Pacific Corporation's 1993 Stock Option and Retention Stock Plan (the "Plan") and further subject to the number being adjusted following Resources' Spin-Off in the same manner as other outstanding Retention Shares under the Plan. These shares will vest three years from grant date, or, if earlier, upon your death or upon disability under the provisions of UPRR's long-term disability plan as in effect from time to time. If prior to vesting, your working relationship with UPRR changes in a mutually agreed upon manner, UPRR may recommend early vesting to the Committee as permitted by the Plan; however, your Retention Shares shall be forfeited automatically in the event you receive the \$700,000 severance payment referred to in the second following paragraph. Dividends will be held in escrow and paid, net of applicable taxes and withholding, upon vesting. Upon the effective date of the Merger (as defined below), you will be entitled to the balance of the Management Continuity Payment described in the Merger Agreement.

The terms set forth in the letter agreement, dated October 26, 1994, between you and SP Rail, as amended (the "SP Employment Agreement") with respect to the remaining outstanding amount of the loan extended to you by SP Rail to

purchase a residence in San Francisco will continue to apply, with Union Pacific Railroad Company ("UPRR") as the obligee of the loan and the employer.

You will receive \$350,000 (less applicable taxes and withholding) upon the effective date of this agreement. In lieu of the severance provisions set forth in the SP Employment Agreement and the Enhanced Severance Program described in the Amended and Restated Agreement and Plan of Merger by and among Union Pacific Corporation, UPRR, SP Rail, UP Holding Company, Inc. and Union Pacific Merger Co., dated as of July 12, 1996 (the "Merger Agreement"), you will be entitled to the following: (1) if, prior to September 11, 1998, your employment with UPRR terminates, other than for "cause" as defined in the Employment Agreement, you will be entitled to a severance payment of \$700,000 less applicable taxes and other withholdings reduced by any bonuses received prior to such termination, and (2) if your employment with UPRR terminates for "cause" at any time, or your employment with UPRR terminates for any reason on or after September 11, 1998, you will not be entitled to any severance payment. In no event will you be entitled to receive any severance payment if your Retention Shares referred to above have vested.

If the compensation outlined in this agreement or previously paid by SP Rail results in your being subject to IRS Excise Tax, Union Pacific Corporation will reimburse you for or pay on your behalf the 20% Excise Tax and related Tax Gross-up on such items, upon the terms and conditions described in Annex A.

As of January 1, 1998, your Southern Pacific service will be combined with your continued Union Pacific service toward vesting and credited service in Union Pacific Corporation's pension plans as in effect from time to time, subject to any offset with respect to accrued benefits under the Southern Pacific pension plan. Union Pacific will also continue to honor the terms of your supplemental pension as provided for in the SP Employment Agreement. Prior to January 1, 1998, you will continue to be covered by the Southern Pacific pension plan and your supplemental pension.

While you are employed by UPRR you will devote your full energies, efforts and productive time exclusively to the business and affairs of UPRR, and you will do your utmost to promote its interest. You will not, without UPRR's prior consent, render to others services of any kind for compensation, and you will not engage in any other business activity that would interfere with the performance of your duties for UPRR.

In the event that your employment with UPRR is terminated by UPRR for any reason, you agree that, for a period of one year, commencing on the date of such termination, without the approval of the Chief Executive Officer of Union Pacific Corporation, you will not compete (as a proprietor, partner, shareholder, director, employee, agent, consultant, or in any other capacity of manner) with UPRR's railroad, fiber optic or real estate businesses or with other material businesses of UPRR or its affiliated companies with which you were involved at any time (including prior to the date of this Agreement), in the geographical areas where such businesses are conducted on the date of such termination, unless neither UPRR nor any of its affiliated companies is involved in such business on the date of such termination, except that the foregoing shall not apply to ownership by you of a 5% or less equity interest in a publicly-traded entity if

you have no other interest in or involvement with such entity. UPRR and you intend that the provisions of this paragraph be enforceable to the fullest extent permitted by law and public policy applied in each jurisdiction where enforcement is sought. If a particular portion of this paragraph shall be adjudicated to be unenforceable, such adjudication shall apply only with respect to your activities in the particular jurisdiction in which such adjudication is made. In addition, you agree that you will not, while you are employed by UPRR or at any time prior to the end of the first year after your employment with UPRR has terminated, without the approval of the Chief Executive Officer of Union Pacific Corporation, solicit the employment of any person, who, at the time of such solicitation, is an employee of UPRR or any of its affiliates.

You acknowledge that as an employee of UPRR, you will have access to proprietary and Confidential Information that directly or indirectly relates to the business of UPRR and its affiliates. For purposes of this Agreement, "Confidential Information" means all information about UPRR and its affiliates obtained or developed by you while an employee of SP Rail or UPRR including, but not limited to, information regarding the officers and other key personnel of UPRR and its affiliates and financial or business information, strategy or plans, which UPRR or one of its affiliates has requested be held in confidence or could reasonably be expected to desire to be held in confidence, or the disclosure of which would likely be disparaging or damaging, to any extent, to UPRR or one of its affiliates or any of their employees and directors, but shall not include information already in the public domain. You agree that you will not, without the prior written consent of UPRR or except pursuant to lawful process, disclose to any person any Confidential Information or use Confidential Information in any way detrimental to UPRR or its affiliates. For purposes of this paragraph, affiliates of UPRR include SP Rail.

You agree that money damages may not be adequate to compensate UPRR and its affiliates for your breach of the immediately preceding three paragraphs and that UPRR will be entitled to a decree for specific performance or other appropriate remedy to enforce your performance under such paragraphs.

None of the foregoing provisions is intended to give you any right to continued employment with UPRR or its affiliates, and UPRR may terminate your employment at any time, with or without cause or notice, subject only to payment of amounts provided above for certain terminations. You acknowledge that this Agreement contains the entire agreement between you and UPRR concerning the terms of your employment.

Except as specifically provided in this Agreement, the SP Employment Agreement is hereby terminated and neither SP Rail or UPRR or any of its subsidiaries or affiliates will have any obligation thereunder.

This agreement will be governed by the laws of the State of Utah.

This agreement is subject to approval by the Board of Directors of Union Pacific Corporation.

If you are in agreement with the terms and conditions of employment contained herein, please execute this Agreement by signing a copy and returning it to the undersigned.

Sincerely,

UNION PACIFIC CORPORATION

/s/ Richard K. Davidson

-----  
By: Richard K. Davidson  
President and Chief Operating  
Officer

Agreed to this 11th day of September, 1996.

/s/ Robert Starzel

-----  
Robert Starzel

Dear Mr. Starzel:

RE: PAYMENT OF CERTAIN TAXES AND RELATED AMOUNTS  
-----

Pursuant to the provisions of the Amended and Restated Agreement and Plan of Merger dated as of July 12, 1996, by and among Union Pacific Corporation ("UPC"), Union Pacific Railroad Company ("UPRR"), Southern Pacific Rail Corporation ("SPRC"), UP Holding Company, Inc. and Union Pacific Merger Co. (the "Amended Merger Agreement"), SPRC is to be merged with a subsidiary of Union Pacific Corporation (the "Merger"). As of the date hereof, you have entered into an employment agreement (the "Employment Agreement") with UPC concerning your continued employment with UPRR and its affiliates. In connection with the Merger, and in certain instances your termination of employment from UPRR, you may become entitled to certain compensation from UPC or one or more of its affiliates (collectively the "Company").

In consideration of your prior services to SPRC and the Company, and the undertakings and agreements contained herein, the Company hereby agrees, subject to the consummation of the Merger and to the extent set forth in this Agreement and in the Employment Agreement, including the limitations and conditions set forth in the fifth paragraph of the Employment Agreement, to indemnify and protect you against any excise tax pursuant to Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") and potential interest or penalties that could be associated with that tax incurred in connection with the transactions contemplated by the Amended Merger Agreement, including but not limited to the Merger.

In the event it shall be determined that any compensation, payment or distribution, made on account of a change in the ownership or effective control of SPRC, within the meaning of Section 280G of the Code (a "Change of Control"), by SPRC or one or more of its subsidiaries or affiliates or by the Company to you or for your benefit (determined without regard to any additional payments required under this Agreement) (each a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code, or any interest or penalties are incurred by you with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then you shall be entitled to an additional payment (a "Gross-Up Payment") in an amount representing the Company's good faith estimate of the amount necessary to compensate you on an after-tax basis for the Excise Tax, but only in the event that you are entitled to such Gross-Up Payment pursuant to the terms of the fifth paragraph of the Employment Agreement.

The Gross-Up Payment will be made on your behalf within a reasonable period of time prior to the date that the obligation to remit the applicable Excise Tax is due. However, as a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination, it is possible that certain payments (the "Underpayment") that have not been made by the Company should have been made to compensate you on an after-tax basis for the Excise Tax; provided, however that the Underpayment shall not include any costs,

expenses, taxes, penalties or other liabilities (a) incurred as a result of your failure to timely remit taxes (other than the Excise Tax, except as otherwise provided in clause (b)) otherwise due by you or with respect to you, (b) incurred as a result of your failure to timely remit to the Internal Revenue Service or any other taxing authority any amounts of Excise Tax that were paid to you by the Company, or (c) resulting from your negligence or failure to comply with the terms of this Agreement. In the event that the Company exhausts its remedies pursuant to the immediately following paragraphs, and you thereafter are required to make a payment of any Excise Tax, any such Underpayment shall be paid by the Company to or for your benefit within a reasonable period of time following such time as the obligation to make such Underpayment is finally resolved.

You shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of any Underpayment. Such notification shall be given by you in a timely fashion, but in no event later than ten business days after you are informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Notwithstanding any other provision in this Agreement to the contrary, if you fail to timely notify the Company of any Underpayment or claim relating thereto, the Company shall not be obligated to pay any costs, expenses, taxes or penalties associated therewith. If the Company notifies you within 30 days following receipt of notice from you, in writing, that it desires to contest such claim, you shall:

(i) give the Company any and all information reasonably requested by the Company relating to such claim,

(ii) take any and all such actions in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred by you in connection with such contest and shall indemnify and hold you harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Agreement, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct you to pay the tax claimed and sue for a refund or to contest the claim in any permissible manner, and you agree to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company may determine; provided further, however, that if the Company directs you to pay such claim and sue for a refund, the Company shall advance the amount of such payment to you, on an interest-free

basis and shall indemnify and hold you harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for your taxable year with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment or Underpayment would be payable hereunder and you shall be entitled, at your own cost and expense, to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

If (a) after your receipt of an amount advanced by the Company hereunder, you, for any reason, become entitled to receive any refund with respect to such claim or amount, or (b) if any amount paid to you or on your behalf pursuant to this Agreement exceeds the amount finally determined to compensate you on an after-tax basis for the Excise Tax, taking into account the limitations on such compensation described in this Agreement, then you shall promptly pay to the Company the amount of such refund or excess (together with any interest or penalties paid or credited thereon after taxes applicable thereto).

You and the Company shall each cooperate with the other in connection with any administrative or judicial proceedings concerning the foregoing provisions of this Agreement, and you agree to timely furnish the Company with all documentation that the Company may reasonably request, including income tax returns and all schedules thereto.

The provisions of this Agreement and the indemnities contained herein shall continue for so long as may be necessary in order to fully protect you against any Excise Tax with respect to the Payments. The provisions of this Agreement may only be modified through a written instrument signed by you and the Company. This Agreement shall be binding upon you and the Company and its successors, assigns and transferees. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah, without regard to its conflict of law rules.

Any notice given hereunder shall be in writing and shall be deemed to have been given when delivered by messenger or courier service (against appropriate receipt), or mailed by registered or certified mail (return receipt requested), addressed as follows:

If to the Company: Union Pacific Corporation  
Eighth and Eaton Avenues  
Bethlehem, Pennsylvania 18018

Attn: Senior Vice President,  
Human Resources;

If to you: At the address hereabove provided;

or at such other address as shall be indicated to either party in writing. Notice of change of address shall be effective only upon receipt.



If you are in agreement with the foregoing provisions of this Agreement, please sign both copies of this letter and return one signed copy to the undersigned.

UNION PACIFIC CORPORATION

By: \_\_\_\_\_  
Richard K. Davidson  
President and Chief Operation Officer

Accepted:

\_\_\_\_\_  
Robert Starzel

Dated: \_\_\_\_\_

UNION PACIFIC CORPORATION  
STOCK UNIT GRANT AND DEFERRED COMPENSATION PLAN  
FOR THE BOARD OF DIRECTORS  
AS AMENDED AS OF JANUARY 28, 1999

## 1. Purpose

-----

The purpose of this Plan is to permit grants of Stock Units to Directors to align their interests with those of stockholders, and to provide a means for deferring payment of all or a portion of any cash compensation, excluding expenses, payable to Directors for their service on the Board of Directors (the "Board") of Union Pacific Corporation (the "Company") in accordance with Article II, Section 5 of the By-Laws of Union Pacific Corporation. Such compensation eligible to be deferred, not including any grants under paragraph 3, is referred to herein as "Compensation".

## 2. Eligibility

-----

Any individual (a "Director") serving as a member of the Board as of the effective date of this Plan or who subsequently becomes a member is eligible under this Plan, other than members who are employees of the Company or any of its subsidiaries.

## 3. Stock Unit Grants

-----

a. Commencing with the second quarter of 1998, each full quarterly installment of a Director's Compensation shall be accompanied by the grant of an amount of whole Stock Units equal to \$7,500 (as such amount may be changed from time to time by the Board) divided by the Fair Market Value of one share of the Company's Common Stock on the first business day of the month following the quarter in which such Compensation was earned, plus cash in lieu of any fractional Stock Unit resulting from such calculation. A pro-rata grant of Stock Units will accompany any partial quarterly Compensation installment. "Fair Market Value" on a date means the average of the high and low trading prices per share on that date, as reported in The Wall Street Journal listing of -----  
consolidated trading for New York Stock Exchange issues. Stock Units and cash so granted shall be credited to such Director's Stock Unit Account referred to in paragraph 6.

b. Each person serving as a member of the Board on January 25, 1996 who has elected (the "Election") to forfeit \$6,000 of the annual retirement pension under the Directors' Pension Plan pursuant to Section 12 thereof shall receive a grant of an amount of Stock Units equal to the dollar amount set forth in the election form pursuant to which such person made the Election, divided by the Fair Market Value of one share of the Company's Common Stock on the date that the grant is credited to such Directors' Stock Unit Account, plus cash in lieu of any fractional Stock Unit resulting from such calculation. For all persons making the Election who are eligible on January 25, 1996 for benefits under the

Directors' Pension Plan, such grant will be credited to such person's Stock Unit Account on February 15, 1996. For all other persons making the Election, such grant will be credited on the date they become eligible for such benefits (or if such date is not a business day, on the next business day).

c. Each person elected as a member of the Board for the first time after January 25, 1996 shall receive, on the date such person completes five consecutive years of service on the Board (or if such date is not a business day, on the next business day), a grant for immediate credit to such person's Stock Unit Account of an amount of Stock Units equal to \$85,000 (as such amount may be changed from time to time by the Board), divided by the Fair Market Value of one share of Common Stock on the date of such grant, plus cash in lieu of any fractional Stock Unit resulting from such calculation. In determining whether a person has completed five consecutive years of service, there shall be disregarded any period of such service during which such person was employed by the Company or any of its subsidiaries and, in the case of any person formerly so employed, any period after termination of such employment if at the time of termination the person is entitled to receive benefits as an employee under any pension plan of the Company or any of its subsidiaries.

4. Deferral Election  
-----

An election to defer Compensation is to be made on or before December 31 of any year for Compensation for services as a member of the Board for the following and later calendar years. In addition to deferrals of 1995 Compensation elected in the previous year, at any time prior to March 31, 1995, a Director may elect to defer additional Compensation to be paid for services in the last three quarters of 1995.

An election to defer is a continuing election until changed by the Director on or before December 31 of any year for the then following and later calendar years. However, once an election is made (and effective), subsequent elections will have no effect on the amounts, timing and manner of payment covered by the previous election.

Any newly elected Director who was not a Director on the preceding December 31 may elect, before his term begins, to defer Compensation for services as a member of the Board for the balance of the calendar year following such election.

Forms shall be made available to Directors each year for the purpose of making or changing their election.

5. Amount  
-----

All or any portion, in multiples of 10%, of a Director's Compensation may be deferred.

6. Deferred Accounts  
-----

Each Director shall have a Stock Unit Account and a Fixed Income Account (together, the "Accounts"). Amounts deferred pursuant to paragraph 4 may be credited to either Account, at the election of the Director made at the time of the deferral election, in multiples of 10% of such Director's Compensation.

Amounts deferred and credited to the Stock Unit Account shall be converted into whole Stock Units on the basis of the Fair Market Value of the Company's Common Stock on the first business day of the month following the quarter in which the Compensation was earned, and cash shall be credited to the Stock Unit Account in lieu of any fractional Stock Unit. In addition, (i) on or prior to March 31, 1995, each Director shall have a one-time election to transfer all or any part of the balance of his or her Fixed Income Account to the Stock Unit Account based on the Fair Market Value of the Company's Common Stock on April 3, 1995, and (ii) during the 60-day period following the date of a Director's termination from the Board, such Director shall have a one-time election to transfer all or any part of the balance of his or her Fixed Income Account to the Stock Unit Account, or of his or her Stock Unit Account to the Fixed Income Account, based on the Fair Market Value of the Company's Common Stock on the first day of the month following the month in which the election was made. Partial transfers shall be made in multiples of 10%.

On the payment date for each cash dividend or other cash distribution with respect to the Company's Common Stock, each Director's Stock Unit Account shall be credited with an amount equal to the amount of the per share dividend or distribution, multiplied by the number of Stock Units in such Account, and, if such Director is then serving as a member of the Board, shall be converted into whole Stock Units on the basis of the Fair Market Value of the Company's Common Stock on the payment date for such dividend or distribution, and cash shall be credited to the Stock Unit Account in lieu of any fractional Stock Units. If a Director is no longer serving as a member of the Board on the payment date for such dividend or distribution, the amount representing such dividend or distribution shall be paid out of the Stock Unit Account to such Director as soon as practicable after the payment date for such dividend or distribution.

Except as provided in the preceding sentence, any cash credited to a Director's Stock Unit Account shall be added to other cash credited to such Account and converted into a whole Stock Unit on the date sufficient cash exists to purchase a whole Stock Unit, based on the Fair Market Value of the Company's Common Stock on such date. In the event of a subdivision or combination of shares of Company Stock, the number of Stock Units credited to the Stock Unit Accounts on the effective date of such subdivision or combination shall be proportionately subdivided or combined as the case may be. No adjustment shall be made in Stock Units in connection with the issuance by the Company of any rights or options to acquire additional shares of Company Common Stock or securities convertible into Company Common Stock. In the event of any stock dividend or reclassification of Company Common Stock, any merger or consolidation to which the Company is a party, or any spinoff of shares or distribution of property other than cash with respect to the Company Common Stock, the Committee shall cause appropriate adjustments, if any, to be made in the Stock Units to reflect such stock dividend, reclassification, merger or consolidation, spinoff or distribution of property.

Amounts credited to the Fixed Income Account shall earn interest compounded quarterly, from the date the Compensation would otherwise have been paid until it is actually paid in full. The rate of interest shall be the same rate as that paid on deferrals into the "Fixed Income Account" (formerly "Investment Account A") under the Company's Executive Incentive Plan.

## 7. Distribution

-----

All distribution from Accounts shall be made in cash. For purposes of distributions from the Stock Unit Account, each Stock Unit shall be converted into an amount of cash equal to the Fair Market Value of one share of the Company's Common Stock on the first business day of the month in which such distribution is made. The Director must elect the timing and manner of payment: (a) in the case of deferred Compensation, at the same time and on the same form he elects a deferral of Compensation, (b) in the case of a Stock Unit grant under 3.a., on or prior to the time an election to defer the accompanying Compensation would have been required to be made, (c) in the case of a Stock Unit grant under 3.b., at the same time as the Election referred to therein, and (d) in the case of a Stock Unit grant under 3.c., prior to the time the Director receives such grant.

- Timing of Payment: Directors may elect to begin distributions from the

-----  
Accounts (a) following termination from the Board, (b) in a year specified by the Director which, in the case of distributions from the Stock Unit Account, must be after termination from the Board, or (c) in the case of distributions from the Fixed Income Account, following retirement from the Director's principal occupation.

- Manner of Payment: The Director may elect to receive payment from the

-----  
Accounts in a lump sum or in a number of equal annual installments, not to exceed ten.

The lump sum or first installment is to be paid in January of the year following the year of termination or retirement or in January of the year selected by the Director, as applicable, and any remaining installments in January of each succeeding year until the total balance is paid.

Distributions from the Stock Unit Account in installments shall be based on equal numbers of Stock Units in each installment.

In the event of the death of a Director then serving as a member of the Board or a terminated or retired Director entitled to a distribution under this Plan, the balance of the Accounts shall be payable to the estate or designated beneficiary in full during the January of the year following the year of such Director's, terminated Director's or retired Director's death.

The Director may designate his beneficiary at the same time he elects deferral of Compensation. However, the latest designated beneficiary will be the beneficiary or beneficiaries for the total of all distributions from the Accounts. The designated beneficiary may be changed at any time on a form provided by the Corporate Secretary, provided that no designation will be effective unless it is filed with the Corporate Secretary prior to the Director's death.

## 8. Unfunded Plan

-----

The liability of the Union Pacific Corporation to any Director, terminated Director, retired Director or his estate or designated beneficiary under the Plan

shall be that of a debtor only pursuant to such contractual obligations as are created by the Plan, and no such obligation of Union Pacific Corporation shall be deemed to be secured by any assets, pledges, or other encumbrances on any property of Union Pacific Corporation.

9. Inalienability of Deferred Compensation  
-----

Except to the extent of the rights of a designated beneficiary, no distribution pursuant to, or interest in, the Plan may be transferred, assigned, pledged or otherwise alienated and no such distribution or interest shall be subject to legal process or attachment for the payment of any claims against any individual entitled to receive the same.

10. Controlling State Law  
-----

All questions pertaining to the construction, regulation, validity and effect of the Plan shall be determined in accordance with the laws of the Commonwealth of Pennsylvania.

11. Amendment  
-----

The Board of Directors of the Union Pacific Corporation at its sole discretion may amend, suspend or terminate the Plan at any time. However, any such amendment, suspension or termination of the Plan may not adversely affect any Director's or his beneficiary's rights with respect to Compensation previously deferred.

12. Administration  
-----

Administration of the Plan will be coordinated by the Corporate Finance Department. Administration will include, but not be limited to, crediting of deferred compensation, dividends and accrued interest to individual Director accounts and ultimate disbursement of deferred amounts.

13. Effective Date  
-----

This Plan shall become effective December 1, 1978, applicable only to compensation for services after December 31, 1978, provided that the provisions hereof related to Stock Units shall be effective January 1, 1995.

Written Description of Other Executive Compensation  
Arrangements of Union Pacific Corporation

-----

Union Pacific Corporation and its subsidiaries make available benefits to certain of their executive officers in the form of annual physical examinations, financial planning, tax planning and return preparation assistance, excess general liability insurance, club memberships and home security systems.

EXHIBIT 12

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES  
 RATIO OF EARNINGS TO FIXED CHARGES (A)  
 (Millions of Dollars, Except for Ratio)

	1998(b) (c)	1997	1996	1995	1994
Earnings from continuing operations.....	\$ (633)	\$ 432	\$ 733	\$ 619	\$ 569
Undistributed equity earnings.....	(43)	(37)	(47)	(29)	(42)
Total.....	(676)	395	686	590	527
Income taxes.....	(63)	244	380	314	330
Fixed Charges:					
Interest Including amortization of debt discount.....	714	605	501	450	347
Portion of rentals representing an interest factor.....	181	166	135	66	42
Total.....	895	771	636	516	389
Earnings Available for fixed charges.....	\$ 155	\$1, 410	\$ 1,702	\$1, 419	\$1,246
Fixed charges as above.....	\$ 895	\$ 771	\$ 636	\$ 516	\$ 389
Interest capitalized.....	-	-	-	-	-
Total.....	\$ 895	\$ 771	\$ 636	\$ 516	\$ 389
Ratio of earnings to fixed charges.....	0.2	1.8	2.7	2.8	3.2

- (a) 1996 information reflected Resources as discontinued operations (See Note 3 to the Financial Statements).
- (b) Excluding the impact of the one time goodwill charge of \$547 million pre-and after-tax in 1998, the ratio of earnings to fixed charges would have been 0.8.
- (c) 1998 earnings were inadequate to cover fixed charges by \$740 million.



Contents

1 Letter to Our Shareholders  
 4 Review of Operations  
 16 Financial Review  
 32 Financial Statements  
 49 Supplementary Information  
 51 Ten-Year Financial Summary  
 52 Map of Union Pacific  
 54 Board of Directors  
 56 Senior Officers

Financial Highlights

Union Pacific Corporation and Subsidiary Companies

Millions of Dollars, Except Ratios and Per Share Amounts	1998 [a]	1997	1996 [b]
	-----	-----	-----
<b>For the Year</b>			
Operating Revenues.....	\$10,553	\$11,079	\$ 8,786
Operating Income (Loss).....	(171)	1,144	1,432
Income (Loss) from Continuing Operations.....	(633)	432	733
Income from Discontinued Operations.....	-	-	171
Net Income (Loss).....	(633)	432	904
<b>Per Share - Basic:</b>			
Income (Loss) from Continuing Operations.....	(2.57)	1.76	3.38
Income from Discontinued Operations.....	-	-	0.79
Net Income (Loss).....	(2.57)	1.76	4.17
<b>Per Share - Diluted:</b>			
Income (Loss) from Continuing Operations.....	(2.57)	1.74	3.36
Income from Discontinued Operations.....	-	-	0.78
Net Income (Loss).....	(2.57)	1.74	4.14
Dividends Per Share.....	0.80	1.72	1.72
Operating Cash Flow.....	565	1,600	1,657
Capital Investments.....	2,111	2,101	1,360
<b>At Year-End</b>			
Assets.....	\$29,374	\$28,860	\$27,990
Total Debt.....	8,692	8,518	8,027
Common Stockholders' Equity.....	7,393	8,225	8,225
Equity Per Common Share.....	29.88	33.30	33.35
<b>Financial Ratios (%)</b>			
Operating Ratio.....	101.6	89.7	83.7
Debt to Capital Employed.....	49.4	50.9	49.4
Return on Average Common Stockholders' Equity..	(8.1)	5.3	12.4

[a] 1998 operating loss and net loss included a one-time \$547 million pre- and after-tax charge (see Note 1 to the Financial Statements). 1998 operating income and net loss, excluding the charge, would have been \$376 million and \$86 million, respectively, with a negative return on average common stockholders' equity of (1.1)%.

[b] Included the effect of the completion of the Southern Pacific Rail Corporation acquisition that occurred in September 1996 (see Note 2 to the Financial Statements) and the completion of the spin-off of Union Pacific Resources Group Inc. (see Note 3 to the Financial Statements).

GRAPHS INSIDE FRONT COVER

Operating Revenues  
 Union Pacific Corporation

\$ Millions

Chart

94	95	96	97	98
-----	-----	-----	-----	-----
6,492	7,486	8,786	11,079	10,563

Operating Income  
 Union Pacific Corporation

\$ Millions

Chart

94	95	96	97	98
-----	-----	-----	-----	-----
1,145	1,242	1,432	1,144	(171)*

\* 376 -- Excluded \$547 million Overnight goodwill revaluation.

Income from Continuing Operations  
 Union Pacific Corporation

\$ Millions

94	95	96	97	98
568	619	733	432	(633) **

\*\* (86) Excluded \$547 million Overnight goodwill revaluation.

## Letter to Our Shareholders

There's no question that 1998 was a difficult year for all of us at Union Pacific as we continued to battle system-wide service difficulties. Our 53,000 Railroad employees worked through severe adversity, and as a result of their dedication we turned the situation around and headed the company in the right direction again. We are using the lessons learned from this experience to help us rebuild and improve our company.

We thoroughly examined all of our business processes, making several key changes that will allow us to operate more effectively and efficiently in 1999 and into the new millennium. Union Pacific is committed to being a company where customers want to do business, employees are proud to work and value is created for shareholders. To achieve this transformation, our company has redefined and clarified its core values of safety first, quality principles, respect for employees, commitment, accountability, simplicity, and communications.

Driving these changes was input from meetings with our customers, employees, unions, government agencies, and shareholders as we proceeded to strengthen the franchise. No one was shy -- especially our customers, who pointedly told us to provide reliable, consistent transportation services and be easier to do business with across the board. With all of this in mind, we invested time, thought and money in areas that would have the greatest impact on Union Pacific becoming the highest quality provider of transportation.

### Financial Results

As a result of the Railroad's service difficulties and the goodwill write-down at Overnite, we recorded a net loss of \$633 million for 1998. During the year we had set out to sell Overnite through an initial public offering. When trucking stocks softened, it became clear that we would not be able to obtain a fair price for the company. We subsequently decided not to proceed with the offering. Meanwhile, Overnite posted very solid results in 1998, and with a renewed focus on quality, produced continued improvement in revenues and operating costs compared to 1997.

At the Railroad, results for the first half of the year fell far below expectations, but by mid-year we turned the corner on profitability, and our recovery efforts began to bear fruit. The fourth quarter saw further progress as operations continued to become more efficient and customers began to bring their business back to the Railroad.

Early in the year our difficulties required us to reduce the dividend and issue equity-related securities. These were among the most difficult decisions I have had to make in my 40-year career, but they were essential to maintain the financial flexibility needed to restore service, fund capital spending, strengthen the company's infrastructure and provide for future growth.

## Transformation

We have learned a great deal about ourselves and our customers this past year. We are putting that knowledge to work to build a better company and, in a nutshell, to change the way we do business. At the heart of our transformation process is a three-pronged approach to reshaping the company. The key elements include:

Decentralization of the operating group into three regions -- North, South and West. Mergers with Chicago and North Western and Southern Pacific (SP) added over 20,000 track miles, more than doubling our system in a little over three years. We determined that managing a system of that size could be done more effectively from regional centers than from a single headquarters location. This regionalization put the tactical decision making closer to the field people who are responsible for doing the work.

Formation of the Network Design and Integration (NDI) team. To help ensure that we utilize our assets efficiently and effectively, NDI will balance demands for critical resources, system capacity and our commitment to meet customer requirements. NDI will help make sure that our Railroad provides the single most important service in the eyes of customers -- reliability. This is the centerpiece of our efforts to redesign our key business practices.

Dramatic change in the leadership and culture of the Railroad. We need to create a more positive and productive work environment for employees to best meet customer needs. Through mergers, we have brought together three very different cultures. Our goal is to use one clearly delineated set of values for all of our employees.

## Building a Foundation for Growth

Union Pacific also made progress in implementing the SP merger and laying a foundation for growth. We purchased approximately 270 new locomotives, hired over 6,000 employees, completed implementation of our computerized Transportation Control System and Crew Management System, and negotiated more hub-and-spoke agreements with our unions.

To strengthen our infrastructure, we spent nearly \$1.5 billion in capital. We increased capacity on the Central Corridor and in the Houston/Gulf Coast area, completed an intermodal facility in Arkansas, opened a locomotive repair shop in Hinkle, Oregon, and made major strides in completing the Roseville, California Classification Yard.

Running a successful business also means running a safe business. Throughout 1998, Union Pacific, its unions and the Federal Railroad Administration -- the three partners in the Safety Assurance and Compliance Program (SACP) -- continued their all-out effort to make Union Pacific the safest railroad. SACP committees have spent many hours talking with people in the field, uncovering issues of common concern and developing initiatives for improving safety standards and performance.

#### A New President

In September Ike Evans joined us as president and chief operating officer of the Railroad, bringing to our company years of experience in customer relations and quality processes. In this role, Ike replaces Jerry Davis, now vice chairman, who has helped acquaint Ike with the Railroad and has passed on his perspectives gleaned from over 40 years in the business. Jerry will be retiring at the end of March, and his valuable insight and keen leadership will be missed as we go forward.

#### Conclusion

Our plan is coming together, and that's bringing a renewed enthusiasm and commitment to everyone at Union Pacific. Our fourth quarter was the best quarter in the last 18 months, and our indicators are headed in the right direction -- train speed is up, inventory numbers have improved and carloadings have increased. Additionally, we made significant progress on our merger integration during the year. But even more heartening, customers in our major commodity groups are giving us a real vote of confidence by starting to bring their business back.

We realize there is a great deal of work ahead to fully regain customer confidence and rebuild our revenue base. This will be everyone's focus in the coming year. With the strength of our newly merged franchise and the continued support of our hardworking, dedicated employees, we are building great momentum for 1999 and beyond. And that makes me optimistic about the future. We have what it takes to transform Union Pacific into an invigorated, customer-driven company, with a solid balance sheet and strong return for our shareholders. I am deeply committed to making our vision a reality.

Dick Davidson  
Chairman and Chief Executive Officer  
February 25, 1999

=====

## Review of Operations

### Union Pacific Railroad

	1998	1997	1996[a]
	-----	-----	-----
Operating Revenues (millions)	\$9,368	\$9,981	\$10,113
Operating Income (millions)	\$ 433	\$1,253	\$ 1,671
Carloadings (thousands)	7,998	8,453	8,814
Operating Ratio (%)	95.4	87.4	83.5

[a] On a pro forma basis as if the Southern Pacific acquisition had occurred on January 1, 1996.

1998 was a pivotal year for Union Pacific Railroad as it worked diligently to eliminate system-wide service congestion that spilled over from the previous year. UPRR took incremental, yet significant steps to restore customer service, improve its system and facilities, and allow the company to operate more safely and efficiently. Striving for operational excellence, the Railroad initiated a transformation process that reaches all corners of the company and affects every employee. Its purpose is to set the stage that will allow UPRR to complete the integration of Southern Pacific and lay a foundation for growth.

#### Transformation of the Railroad

First on the agenda, the Railroad addressed the disruptive service problems that still plagued it into 1998. For example, to restore consistent service in the Gulf Coast area, UPRR instituted, among other things, directional running, which covers a triangle from

Houston to Dexter, Missouri to Livonia, Louisiana; set up a joint dispatching center in Spring, Texas with the Burlington Northern Santa Fe; linked Houston's Englewood and Settegast Yards with connecting track; made a strong hiring push; and bought nearly 270 new locomotives for use system-wide. Attacking these problems one by one ended congestion on the Railroad and made the system fluid again.

The effects of these actions began to take hold in the third quarter, and by year-end there was encouraging news on three vital fronts: operations, business levels and financial results. Though the news is better, UPRR is well aware that customers, investors and employees expect -- and deserve -- more.

#### Financial Results

Union Pacific Railroad realized net income of \$27 million, compared to last year's \$620 million. Carloadings declined approximately 5 percent compared to 1997.

System congestion and weather-related delays negatively affected the Railroad's operating ratio, which increased to 95.4, compared to 87.4 last year. The operating ratio improved during the second half of the year following the application of new operating practices, the completed implementation of the Transportation Control System (TCS) on all former SP lines and the positive impact of merger-related activities.

## Commodity Results

Overall carloadings were down as a result of system-wide congestion during the first half of the year and weak demand in certain markets, most notably grain, paper and steel.

Total coal tonnage in 1998 grew 2 percent, and revenues were up 4 percent over last year. Coal carloadings from Powder River Basin and Colorado/Utah mines grew by 6 percent and 8 percent, respectively, while southern Illinois tonnage was down. UPRR averaged nearly 25 trains a day or 119 million tons for the year from the Powder River Basin, and in late September loaded its 75,000th coal train since commencing service from that area. Mines in Colorado and Utah averaged more than 11 trains a day in 1998, a substantial increase from 1997.

Automotive carloadings were flat, while revenues were down 2 percent in 1998 compared to record levels of a year ago. Increases in both new and existing businesses offset the effects of service interruptions, a 54-day work stoppage at a major manufacturer and a declining number of import vehicles.

Increased communications with customers and a larger commitment of resources better prepared UPRR to handle a robust 1998 grain harvest. However, due to a drop in export demand, grain volumes fell nearly 8 percent compared to 1997. Although shipments to West Coast ports declined, grain traffic into the Gulf states and Mexico increased.

Because of poor service, UPRR lost some important chemical business during 1998. To overcome delays, improve the fluidity of



yards and increase train velocity, the Railroad made a number of significant changes in the way it handles petrochemical shipments out of the Gulf Coast. The use of directional running, an investment in infrastructure and the establishment of a joint dispatching center in Spring, Texas had an immediate impact on operations. Nevertheless, volumes fell approximately 7 percent from last year, mostly in liquid and dry chemicals, LP gas, plastics and petroleum products. A 4 percent increase in fertilizers partially offset these losses.

UPRR's service interruptions last year had a severe impact on intermodal business, as volume fell 9 percent. However, UPRR views this segment as a growth market. To meet future intermodal demands, the Railroad has built business plans that are market competitive and supported by all needed resources.

#### Business with Mexico

Revenue from Mexico traffic was off compared to 1997 due mostly to service-related difficulties, with declines in grain, steel and automotive shipments. Additionally it was necessary to place an embargo on certain traffic through the Laredo crossing at the end of the first quarter to help relieve congestion. With the Railroad making a number of capital investments at specific border points, traffic volumes improved during the fourth quarter, especially shipments of finished autos and auto parts and electronics.

The formation of Ferromex and Transportacion Ferroviaria Mexicana, two privatized Mexican rail systems serving the border gateways, now provides better traffic flow across the border and offers broad opportunities for expanded trade. Ferromex, in which UPRR is a minority investor, began operations in the first quarter and interchanges with four Union Pacific gateways -- Eagle Pass, El Paso, Nogales and Calexico.

#### Improving the Franchise

The Railroad has a far-reaching infrastructure of track and facilities for its customers. In 1998 the Railroad made substantial investments in new facilities, as well as modernizing and expanding others, which will result in bottom-line improvement. For example:

In July UPRR opened a \$70 million Memphis-area intermodal facility in Marion, Arkansas. The 600-acre facility, a dramatic improvement over the former site, has an annual lift capacity of 375,000 trailers and containers, using five cranes and one mobile packer. Trucks can now move in and out of the facility in about one third the time of the national average.

Completed in October, the \$32 million Hinkle Locomotive Service and Repair Shop in eastern Oregon now allows UPRR to perform virtually all engine repairs and maintenance for the Pacific Northwest in one shop. The 100,000 square foot facility consolidates shop activities and makes repair work easier

and more efficient. Twelve locomotives can be repaired or maintained at the same time on four tracks that run through the main building.

To provide value-added service to customers and create a strategic marketing advantage, the Railroad has a number of storage-in-transit (SIT) rail yards under construction to support chemical business in the Gulf Coast area. SIT yards store hopper cars filled with a customer's plastic pellets. This type of rolling "warehousing" reduces the need for storage at the manufacturer and saves time when pellets are transported to their final destination.

Significant progress was made on construction of the Roseville Classification Yard in northern California. When completed in May of 1999, Roseville will process up to 2,300 cars per day going through the Central Corridor. This strategic \$145 million facility on 915 acres will become one of the largest rail yards in the UP system, with 55 classification tracks, eight receiving and eight departing tracks, a second main line, 247 switches, and over 86 miles of new track.

## Capacity Expansion

UPRR invested a substantial amount of money in 1998 to relieve congestion causing the greatest impact on our system velocity. Projects included:

Completing the 108-mile triple main line track between North Platte and Gibbon, Nebraska. This construction is part of a five-year project to expand capacity on UPRR's busiest corridor lines that carry Powder River Basin coal to utilities in the Southwest and Midwest.

Expanding the main line from one track to two between Missouri Valley and Denison, Iowa, a stretch of 32 miles. This expansion will improve UPRR's ability to serve grain shippers and coal customers in the Midwest and East.

Constructing nearly 12 miles of double main line track on two lines in Nebraska that are part of the Marysville subdivision. The extra track capacity will help with a number of commodities, especially moving empty coal cars to the Powder River Basin mines. To further support the routing of coal traffic, UPRR purchased the rail line from St. Joseph, Missouri to Marysville, Kansas.

Spending nearly \$288 million in the Gulf Coast region for capacity expansion, track upgrades and new facilities.

Upgrading the Tucumcari line between El Paso and Chicago, providing faster movement of intermodal traffic from the Midwest to southern California ports.

## Technology Enhancements

The Railroad's ability to unify information and computer systems quickly and accurately is the linchpin to achieving merger benefits. In July the Railroad completed its fourth and final cutover of former SP locations by joining four western states to UPRR's Transportation Control System. This completed a two-year project that now brings the entire merged company under one system. Improved customer service and operating efficiencies followed computer system implementation.

One of the most critical issues facing the Railroad and its business partners is Year 2000 (Y2K) computer compliance. Because of the critical need for Y2K compliance, UPRR has given this project the highest priority. By the end of 1998, Union Pacific completed the bulk of the work, allowing time during 1999 to handle any additional issues and to help ensure a smooth transition on January 1, 2000. Currently the Railroad continues Y2K testing and compliance, working closely with customers and suppliers as well.

=====

Review of Operations

Overnite Transportation

	1998	1997	1996
	-----	-----	-----
Operating Revenues (millions)	\$1,034	\$ 946	\$ 961
Operating Income (Loss) (millions)[a]	\$ 54[b]	\$ 30	\$ (47)
Shipments (thousands)	7,789	7,506	8,223
Operating Ratio (%) [a]	94.8[b]	96.8	104.9

[a] Excluded goodwill amortization of \$15 million in 1998 and \$20 million in both 1997 and 1996.

[b] Excluded the one-time charge for the revaluation of Overnite's goodwill of \$547 million pre- and after-tax (see Note 1 to the Financial Statements).

In 1998 cost-reduction and revenue-enhancing programs, improved asset utilization, a continued focus on quality and favorable economic conditions helped Overnite Transportation, the nation's sixth largest less-than-truckload carrier, post net income of \$40 million compared to net income of \$24 million in 1997, before goodwill in both years and excluding the effects of a \$547 million write-down. Overnite's shipments increased 4 percent over 1997, and its operating ratio improved to 94.8 from 96.8.

Keys to Success

Throughout a three-year growth period, Overnite has made a significant turnaround in all facets of operation. With higher levels of service and reliability -- spearheaded by its 12,500 employees -- and flexibility of operations, Overnite built market strength, attracted more profitable freight, improved its customer mix and added national and

local accounts, all while maintaining a disciplined pricing structure.

Overnite continues to develop and cultivate its specialty high-yield services: Assembly and Distribution, Trade Show Division, Cross Border and Ocean Services, and Special Services Division. During 1998 Overnite initiated Guaranteed Transportation Solutions (GTS), a value-added niche service that complements its core less-than-truckload capabilities. GTS offers customers premium, time-definite service to any direct-service point coast to coast, as well as Canada and Puerto Rico.

Overnite improved its website by adding customer-friendly interactive features including applications for shipment tracing, rate-quote requests and access to Rate EDGE, as well as transit times for all direct and indirect destinations.

#### Building the Franchise

Early this year Overnite opened its expanded Dallas Service Center, which will be key to providing service that will blanket the state and allow the movement of freight between Texas and New England in 48 hours. Additionally, by mid-1999 Overnite will have a network of more than 200 service centers and agencies stretching from coast to coast, offering complete coverage in 35 states. Overnite will offer next-day service and coverage to match the best-in-class regional carriers east of the Rockies, together with inter-regional and long-haul sleeper team services that are among the industry leaders.

=====

## Review of Operations

### Union Pacific Technologies

Union Pacific Technologies, drawing upon the expertise of its experienced staff, had another successful year providing a variety of transportation-related software and services to carriers and shippers in the commercial marketplace. Technologies also developed sophisticated computer systems for the Corporation's operating companies.

### Transportation Management

Technologies supports UPRR's Transportation Control System (TCS) and markets that software to the rail industry. In 1998 Technologies experienced significant growth, providing TCS and other transportation management solutions to various railroads in the United States, Mexico and the United Kingdom. This remains a growth area with continued product investment in innovative technologies, expanded functionality and multilingual capabilities.

In 1998 Technologies, working with UPRR's Information Technologies department, completed the complex process of installing TCS on the former Southern Pacific (SP) lines. This included making significant software changes to handle unique SP operating requirements. Implementation of TCS is one of the critical components of the Railroad's strategy to provide customers with merger-related enhanced service and operating efficiencies.



Another significant growth area for Technologies was Shipment Management Services (SMS), where several new value-added services were introduced. Currently, SMS interacts with virtually all North American rail carriers to provide shippers with real-time visibility of products in transit. Technologies now provides Internet access to SMS for shipment location and interline performance measurement information, and will continue to expand such capabilities.

#### Product Expansion

PS Technology, Inc. (PST), a growing UP technology company, has been the market leader of train crew management software and services in the North American freight and transit railroad industry since 1988. PST's System for Assignment and Tracking schedules, manages and produces payroll data for over 70,000 train and engine employees. The company also provides a Logistics Ordering and Tracking System that automates the booking, tracking and accounting interfaces for intermodal shipments. Commercial expansion efforts under way include employee management software for companies with complex work and payroll procedures.

A major expansion of capabilities and product offerings happened in late 1998 with the addition of Automated Monitoring and Control Incorporated (AMCI). AMCI's current product offerings include systems design and integration, rail work order and event management applications, data radio solutions, and mobile computing equipment used on board locomotives.

## FINANCIAL REVIEW

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

## CORPORATE REORGANIZATION

In 1998, Union Pacific Corporation (UPC or the Corporation) continued implementing its strategy of refocusing on its core rail transportation business. The implementation of this strategy began with the 1994 sale of USPCI, Inc., the Corporation's waste-management business. Since then, the Corporation disposed of its oil and gas operations, sold its logistics business and attempted to sell its trucking operations. At the same time, the Corporation invested heavily in rail assets creating the largest rail system in the United States. The Corporation's rail investments included the 1995 purchase of the Chicago and North Western Transportation Company (CNW) - the nation's eighth largest railroad, the 1996 acquisition of Southern Pacific Rail Corporation (SP or Southern Pacific) - the country's sixth largest railroad, and the 1997 investment in the Pacific-North and Chihuahua Pacific lines in Mexico.

Key strategic transactions in 1998, 1997 and 1996 were as follows:

**OVERNITE DIVESTITURE** - In May 1998, the Corporation's Board of Directors approved a formal plan to divest of UPC's investment in Overnite Transportation Company (OTC or Overnite) through an initial public offering (IPO). UPC recorded a \$262 million after-tax loss from discontinued operations in the second quarter of 1998 to provide for the expected loss from the sale of Overnite (see Note 1 to the Financial Statements). During the second half of 1998, UPC attempted to sell Overnite. However, market conditions deteriorated in the third quarter of 1998 to the point that UPC decided not to consummate the IPO. UPC also pursued a sale of OTC to strategic buyers. Based upon market conditions, a divestiture of OTC within the one-year time frame prescribed by generally accepted accounting principles (GAAP) was no longer reasonably assured. As a result, in the fourth quarter of 1998, the Corporation reclassified Overnite's results to continuing operations and reversed the \$262 million loss from discontinued operations. In the fourth quarter of 1998, the Corporation also recorded a \$547 million pre-and after-tax charge to reflect an impairment of Overnite's goodwill that was recorded in continuing operations. Previously reported results for the second and third quarters of 1998 have been restated to reflect Overnite's earnings in continuing operations.

**SKYWAY** - In November 1998, the Corporation completed the sale of Skyway Freight Systems, Inc. (Skyway), a wholly-owned subsidiary. Skyway provided contract logistics and supply chain management services. The proceeds were used to repay outstanding debt. The sale of Skyway generated a net, after-tax loss of \$50 million, of which \$40 million was recognized in the fourth quarter of 1997 (see Notes 3 and 13 to the Financial Statements).

**MEXICAN RAILWAY CONCESSION** - During 1997, the Corporation's rail subsidiary, Union Pacific Railroad Company (UPRR or the Railroad), and a consortium of partners were granted a 50-year concession to operate the Pacific-North and Chihuahua Pacific lines in Mexico and a 25% stake in the Mexico City Terminal Company at a price of \$525 million. The Railroad holds a 13% ownership share and has accounted for its interest on the equity method. The consortium assumed operational control of both lines in 1998. In January 1999, the Corporation signed a letter of intent to acquire an additional 13% ownership interest.

**SOUTHERN PACIFIC** - UPC consummated the acquisition of Southern Pacific in September 1996. SP was acquired for \$4.1 billion (60% of the outstanding Southern Pacific common shares were converted into UPC common stock, and the remaining 40% of the outstanding shares were acquired for cash). UPC initially funded the cash portion of the acquisition with credit facility borrowings, all of which have been subsequently refinanced with other borrowings. The acquisition of Southern Pacific has been accounted for using the purchase method. During 1998, UPC continued its integration of SP's rail operations. This process is expected to be completed over the next three years (see Note 2 to the Financial Statements).

**RESOURCES** - In July 1995, the Corporation's Board of Directors approved a formal plan to divest of UPC's natural resources business, Union Pacific Resources Group Inc. (Resources), through an IPO by Resources, followed by a pro-rata distribution of Resources shares owned by the Corporation to its stockholders (the Spin-Off). The IPO of 42.5 million Resources shares at \$21.00 per share was completed in October 1995, and in September 1996, the Corporation's Board of Directors declared a special

dividend consisting of the shares of Resources common stock owned by UPC. Resources' results have been reported as discontinued operations in the Corporation's 1996 financial statements.

#### SERVICE ISSUES

The Corporation's results in 1998 continued to be adversely affected by the congestion on the Railroad's system that began in the third quarter of 1997. However, the Railroad's service recovery efforts resulted in significant improvements in operating and financial results beginning in the latter half of the year. Congestion issues and the Railroad's service recovery efforts are discussed below.

#### 1998 COMPARED TO 1997

##### CONSOLIDATED

**NET INCOME** - The Corporation reported a net loss of \$633 million (a loss of \$2.57 per basic and diluted share), reflecting a one-time revaluation of Overnite's goodwill of \$547 million pre- and after-tax (see Note 1 to the Financial Statements) and the effects of system congestion at the Railroad. Excluding the effect of the one-time revaluation of goodwill at Overnite, the Corporation would have returned to profitability in the second half of 1998, as the Railroad began to see the benefits of its service recovery process. Despite service improvements in the second half of 1998, service problems and congestion significantly affected year-over-year results. As a result, the Corporation would have reported a net loss of \$86 million (\$0.35 per basic share and diluted share) in 1998, excluding the one-time goodwill revaluation, compared to earnings of \$432 million (\$1.76 per basic share and \$1.74 per diluted share) in 1997.

**OPERATING REVENUES** - Operating revenues declined \$526 million (5%) to \$10.6 billion in 1998, reflecting lower volumes at the Railroad (the result of system congestion) partially offset by higher revenues at Overnite. Operating expenses increased to \$10.7 billion for 1998, \$789 million (8%) higher than 1997 operating costs of \$9.9 billion. Excluding the goodwill revaluation, operating costs would have increased to \$10.2 billion (2%). Salaries, wages and employee benefit costs were \$182 million (4%) higher than 1997. Slower train speeds (causing the need for increased train crew levels) and other congestion-related labor cost overruns at the Railroad, inflation, and higher volumes at OTC all contributed to higher labor costs. These higher costs were partially offset by lower rail volumes (loads down 5%) and the elimination of duplicative positions as part of the SP merger implementation. Rent expense was up \$22 million (2%) versus 1997, caused by slower average train speeds at UPRR (car cycle times ran 2 days above 1997 levels at 16 versus 14 days), locomotives leased for service recovery and higher volumes at OTC. Depreciation expense grew \$27 million (3%) to \$1,070 million, driven by the Railroad's extensive capital programs in 1997 and 1998. Fuel and utilities expenses were down \$199 million (19%) from 1997. A year-over-year reduction in gross-ton miles at the Railroad (down 4%) generated volume-related fuel savings, while prices fell 13% and 16% at UPRR and OTC, respectively. Materials and supplies costs were up \$5 million (1%) to \$565 million from 1997, reflecting price inflation and increased maintenance of locomotives and freight cars, partially offset by merger consolidation benefits and lower material transportation costs. Lower volumes due to slow train speeds partially offset these higher materials and supplies costs. Casualty costs declined \$3 million to \$475 million, as lower personal injury costs were offset by increased insurance and damaged freight costs. Property and use taxes increased \$3 million to \$229 million. Other costs increased \$205 million (20%) from 1997, largely reflecting costs associated with the resolution of customer claims (see Note 12 to the Financial Statements).

**OPERATING INCOME** - Operating income declined \$1.3 billion to a loss of \$171 million in 1998, reflecting operating declines at the Railroad of \$820 million and the goodwill revaluation of \$547 million at Overnite. Excluding the goodwill revaluation at Overnite, operating income would have been \$376 million, compared to \$1.1 billion in 1997, reflecting the impact of congestion at the Railroad partially offset by operating improvements at Overnite.

**NON-OPERATING ITEMS** - Other income improved \$52 million to \$189 million, reflecting higher year-over-year asset sales. Interest costs were \$109 million unfavorable to 1997 at \$714 million, reflecting higher borrowings to fund capital investments that could not be funded from operating cash flow at the Railroad due to the effects of system congestion. Income taxes (state and Federal) were favorable by \$307 million compared to \$244 million in 1997, the result of lower pre-tax income.

KEY MEASURES - Net income (excluding the one-time revaluation of goodwill at Overnite) as a percentage of operating revenues declined to (0.8)% from 3.9% in 1997. Return on average common stockholders' equity (excluding the one-time revaluation of goodwill at Overnite) dropped to (1.1)% in 1998 from 5.3% a year ago, reflecting the impact of congestion issues at the Railroad. In addition, the Corporation's operating ratio, excluding the one-time revaluation of goodwill, was 96.4% in 1998, compared to 89.7% in 1997.

#### RAIL

SERVICE RECOVERY - Congestion in and around Houston and the coastal areas of Texas and Louisiana (the Gulf Coast region) began in the third quarter of 1997. System congestion started in the Gulf Coast region and spread throughout the system during the third and fourth quarters of 1997, and continued to adversely affect the Railroad's operations and financial results in 1998. In response to its operational difficulties, the Railroad adopted certain measures beginning in 1997 designed to alleviate the congestion problems and improve the efficiency and flexibility of rail operations. To ease system congestion, the Railroad focused on reducing the number of cars on the system and restoring system velocity by hiring additional train and engine employees, accelerating and expanding locomotive purchases and leases, improving management of train crews, and using outside carriers for haulage and train switching in congested areas. In 1998, these efforts were supplemented by the institution of directional running in parts of the Gulf Coast region, establishment of a joint dispatching center in Texas, and extensive track maintenance and capacity expansion efforts in UPRR's Central Corridor and southern tier. While in some cases the Railroad's actions temporarily slowed service, they have resulted in improved system velocity. Also in 1998, UPRR instituted several key initiatives including a new long-term strategy to improve the effectiveness of the organization. This effort is focused on culture change, business process improvement and decentralization, each of which is designed to improve customer satisfaction, increase employee involvement and improve operational efficiency and financial results. The combination of all of the steps described above (the Service Recovery Process) has allowed the Railroad to alleviate congestion and improve operations throughout the UPRR system. However, despite these improvements, the Railroad's operations and financial results were significantly impacted by congestion in 1998.

WEATHER AND OTHER CONGESTION ISSUES - During 1998, service in the Railroad's Central Corridor between Chicago and Utah was slowed by track maintenance and capacity expansion work that is expected to be completed during 1999. UPRR also experienced congestion on its lines in northern California, in the Los Angeles Basin and on the Sunset Route west of El Paso, Texas. This was caused in part by two derailments that occurred in July 1998, tight crew supply and limited track capacity in that region, and the learning curve associated with the integration of the computer system of Southern Pacific in the region with the Railroad's computer system that commenced in July 1998. The Railroad alleviated this congestion by various measures, including temporarily rerouting trains from this region to other portions of its system. Late in the third quarter and early in the fourth quarter of 1998, the Railroad's operations were also adversely affected by severe weather in the southern portion of its system, including Hurricane Georges, which disrupted operations in New Orleans and other parts of Louisiana at the end of September, heavy rains that moved from northern Texas through Oklahoma and into the Kansas City area in early October, heavy rains that resulted in severe flooding in central and southern Texas later in October, and heavy rains and flooding across parts of Oklahoma and Kansas in early November. The Railroad was able to respond quickly to these problems by rerouting traffic, repairing damages caused by washouts and restoring service without severe or lengthy disruptions to the Railroad's operations, which reflected the success of the Railroad's Service Recovery Process in addressing service and congestion problems. Despite these external difficulties, the Railroad was able to recoup the financial loss generated in the first half of 1998 and reported net income for the full year of 1998.

OPERATING RESULTS - The Railroad returned to profitability in the third quarter of 1998 (by posting net income of \$67 million after three consecutive quarterly losses) and continued its earnings improvement in the fourth quarter of 1998 (posting net income of \$114 million), as the Railroad began to see the benefits of implementing its Service Recovery Process. Despite service improvements in the second half of 1998, year-over-year results were significantly affected by the congestion problems discussed above. As a result, the Railroad reported net income of \$27 million in 1998 compared to \$620 million in 1997.

REVENUE SUMMARY - Rail operating revenues were down \$613 million (6%) at \$9.4 billion. Carloadings for 1998 of 8.0 million were down 5% from 1997 loads of 8.5 million. Declines followed continuing system congestion - which significantly lowered overall train velocity and efficiency, weakening demand for whole grain exports (due to strong worldwide crop yields), and a soft export market (caused by the Asian economic crisis). Average revenue per car (ARC) was down 1% for 1998 at \$1,134 per car from last year's \$1,149. The decline in ARC was driven by a shift in corn shipments from long-haul Pacific Northwest moves to shorter-haul Gulf Coast traffic and large volumes of very low-ARC empty repositioning moves for intermodal traffic, partially offset by longer-haul, high-ARC coal traffic.

The following table summarizes the year-over-year change in rail commodity revenue (CR) and ARC by commodity type:

-----  
 Carloads in Thousands, Commodity Revenues in Millions of Dollars

	1998			Change			% Change		
	Cars	ARC	CR	Cars	ARC	CR	Cars	ARC	CR
Automotive.....	643	1,459	\$ 938	2	\$(27)	\$ (15)	- %	(2)%	(2)%
Agriculture.....	847	1,545	1,308	(69)	(33)	(138)	(8)	(2)	(10)
Intermodal.....	2,500	601	1,503	(247)	(28)	(225)	(9)	(4)	(13)
Chemicals.....	900	1,707	1,535	(72)	(57)	(179)	(7)	(3)	(10)
Energy.....	1,767	1,130	1,997	31	28	84	2	2	4
Industrial.....	1,341	1,335	1,791	(100)	(23)	(167)	(7)	(2)	(8)
Total.....	7,998	\$1,134	\$9,072	(455)	\$ 15	\$(640)	(5)%	(1)%	(7)%

Automotive-Revenues were down 2%, reflecting flat volume and a 2% decrease in ARC. Finished vehicles volumes were up 3%, reflecting new Ford business (up 25%) and growth in Chrysler business (up 12%) that were partially mitigated by the effects of the General Motors (GM) strike in mid-1998. Parts volumes lost 4% year-over-year as Ford's volumes fell because of the Railroad's equipment shortages and GM's switch from intermodal containers to boxcars, which lowered parts carloadings as more parts fit in each boxcar. ARC fell 2% as a result of the new Ford business that generated a shorter length of haul than existing business.

Agriculture - Revenues fell 10% for 1998, as loads finished down 8% and ARC decreased 2%. Low export demand due to strong worldwide crop yields, the Asian economic crisis and falling corn prices caused a 12% decline in corn volumes. System congestion limited traffic for canned and packaged products (down 16%), fresh fruit and vegetables (off 13%), beverages (down 12%), frozen products (off 4%) and food grains (down 3%). Livestock/feed declined 16% as feed additives were replaced by less expensive corn. These volume declines were partially offset by higher wheat (strong harvest - up 2%) and meals and oils (up 3%) traffic. ARC declined 2% as a result of a drop in Pacific Northwest corn moves (very long haul moves) due to weak export markets.

Intermodal - Revenue showed a 13% year-over-year decline as volumes fell 9% and ARC fell 4%. Congestion issues and related diversions severely affected several intermodal segments, especially Intermodal Marketing Company (IMC)/truckload (TL) and less-than-truckload (LTL)/premium. Volumes also suffered from weak exports due to the Asian crisis. A partial offset was the impact of new American President Lines business and the high demand for containers. ARC fell as traffic mix shortfalls (relatively fewer high-ARC IMC/truckload and LTL/premium loads) were exacerbated by increased volumes of low-ARC empty repositioning moves, as equipment imbalances precipitated by strong imports and weak exports caused customers to significantly increase empty container repositioning moves.

Chemicals-Shipments fell 7%, while revenues dropped 10% when compared to 1997 results. Congestion-related diversions to truck, barge and other railroads plagued most business lines (especially liquid and dry chemicals - off 9% and petroleum products down 19%). LP gas traffic (down 18%) was hurt by the introduction of new pipelines, while the Asian crisis significantly reduced the movements of soda ash causing carloads to fall 10%. In addition, an unplanned mine shutdown reduced shipments of phosphorus (off 9%). The 3% decline in ARC was largely due to a higher volume of short-haul storage-in-transit moves, lower high-ARC liquid and dry chemical and soda ash moves, and the loss of long-haul business due to system congestion.

Energy - Movements were up 2%, while revenues were up 4% from 1997 levels. Congestion caused by, among other things, maintenance and capacity expansion in the Central Corridor and diversion of Illinois traffic hampered coal volumes throughout 1998. However, efficiency gains in both Powder River Basin (PRB) trains per day (24.7 in 1998 from 23.9 a year ago) and PRB train

length (119 cars/train in 1998 vs. 116 in 1997) helped boost year-over-year volumes despite the effects of congestion caused by maintenance and track expansion in the Railroad's Central Corridor. Colorado and Utah volumes were also up due to better service performance than 1997 levels. The 2% increase in ARC was primarily a result of more high-ARC PRB traffic.

Industrial - Volumes declined 7%, while ARC declined 2%, resulting in an 8% drop in revenues. Volumes continued to be plagued by equipment shortages and service issues (caused by slowed local switching and congestion). A large portion of industrial product moves occurred in the South, where congestion hit hardest, although service levels have continued to improve. Shipments of ferrous scrap (down 20%), steel (17% lower due to congestion and higher steel imports), metallic minerals (off 15%) and paperboard, newsprint and non-metallic products (all off 11%) were affected by congestion. In addition, several of the same commodities have also been affected by Central Corridor congestion (due to, among other things, maintenance and capacity expansion) and congestion in the western portion of the Railroad's system, as the final portion of UPRR's computerized operating system was brought on-line in SP's western territory in the third quarter of 1998. ARC fell 2% due to product mix issues and shortfalls of high-ARC steel traffic, lumber and metallic minerals.

EXPENSE SUMMARY - Operating expenses were \$8.9 billion for 1998, \$207 million (2%) higher than 1997 operating expenses of \$8.7 billion. However, second half 1998 operations improved significantly from the first half of 1998. The following statistical table reflects the improvements in the Railroad's operating performance in the second half of 1998:

Averages, Except Ratios	1997				1998			
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Seven-Day Loadings (000's).....	170.7	165.9	153.6	152.5	154.9	155.3	160.6	
Train Speed (MPH).....	18.4	15.0	13.2	13.8	14.0	14.4	15.5	
Car Cycle Times (Days)...	12.7	15.2	17.5	17.6	16.4	15.9	14.4	
Operating Ratio (%).....	80.9	82.0	102.5	97.7	105.1	90.5	88.7	

Salaries, wages and employee benefits - Labor expenses were \$140 million (4%) higher than 1997. Slower train speeds (which created the need to increase the number of train crews required as re-crew rates jumped to 18% in 1998 vs. 15% a year ago), inflation and other congestion- and service-related cost overruns contributed to higher labor costs. These higher costs were partially offset by lower volumes (gross-ton miles were down 4%) and the elimination of duplicative positions as part of the SP merger implementation.

Rent - Expenses were up \$19 million (1%) versus 1997. Cycle times were up 2 days from 1997 causing the Railroad to rent more equipment due to the decrease in equipment utilization. Locomotives leased to alleviate congestion and support service recovery also increased equipment costs, as slower train speeds lowered locomotive utilization increasing the need for additional locomotive power. However, these increases were partially offset by lower traffic levels due to congestion-related volume shortfalls.

Depreciation - Expense grew \$31 million (3%) to \$1.0 billion, driven by the Railroad's extensive capital programs in 1997 and 1998. The Railroad spent over \$2.0 billion on capital projects in 1998 (including \$400 million of SP integration projects). UPC expects to spend \$1.7 to \$1.9 billion in 1999, of which \$200 million will be merger-related.

Fuel and utilities - Expenses were down \$195 million (20%) from 1997. A reduction in gross-ton miles year-over-year (down 4%) generated volume-related fuel savings of \$36 million versus 1997. Prices were down 9 cents per gallon to 62 cents, saving \$106 million. The fuel consumption rate of 1.39 gallons per thousand gross-ton miles improved 2% from last year's 1.42, lowering the Railroad's fuel costs by \$23 million. Hedges of 57% of 1998 fuel volumes increased fuel costs by \$87 million, or 8 cents per gallon (included in the cost per gallon information above).

Materials and supplies - Costs for 1998 were down \$2 million from 1997 to \$513 million caused by favorable contract pricing from economies of scale achieved from the SP merger and lower material transportation costs - reflecting UPRR's ability to move materials on its rail system rather than by truck, partially offset by increased fleet maintenance.

Casualty - Costs decreased \$9 million to \$423 million in 1998. Lower personal injury costs resulted from a decline in average settlement costs and were partially offset by higher insurance and damaged freight costs.

Other costs - Expenses increased \$223 million (21%) from 1997, reflecting costs (\$370 million in 1998 versus \$86 million in 1997) for congestion-related customer claims and liquidated damages on coal contracts. Increased use of trackage rights by competitors and merger-related cost savings on computers and contract pricing partially offset these cost increases.

OPERATING INCOME - Operating income of \$433 million for 1998 compares to \$1,253 million in 1997, reflecting a year-over-year increase in pre-tax congestion costs and lost revenues, as congestion issues began late in the third quarter of 1997. The operating ratio for 1998 was 95.4%, up 8 points from 1997's 87.4%. Lost revenues and costs related to service performance were the key drivers of the change.

NON-OPERATING ITEMS - Other income was \$14 million above last year's levels, reflecting increased asset sales and recovery of funds from insurers for 1997 floods. Interest costs were \$130 million (28%) unfavorable to 1997 at \$603 million, reflecting borrowings to fund capital investments that could not be funded from cash generated at the Railroad due to the effects of system congestion. Income taxes (state and Federal) were \$343 million less compared to 1997, the result of lower pre-tax income.

#### TRUCKING

NET INCOME - During the fourth quarter of 1998, the Corporation changed its method of measuring an impairment of enterprise level goodwill from an undiscounted cash flow method to one based on discounted cash flows (see Note 1 to the Financial Statements). The Corporation believes that a discounted cash flow approach is preferable in that it provides a more current and realistic valuation than the undiscounted method and more closely approximates Overnite's fair value. In connection with the change in accounting policy with respect to measurement of goodwill impairment described above, Overnite recorded a \$547 million charge for a revaluation of goodwill in the fourth quarter of 1998. The goodwill was related to the acquisition of Overnite by UPC in 1986. GAAP precludes the recognition of tax benefits associated with goodwill charges to income. Should the Corporation sell Overnite in the future, a gain from the recognition of the tax benefit associated with the goodwill may be recognized.

As a result of the \$547 million one-time goodwill revaluation charge, Overnite posted a net loss of \$522 million, compared to net income of \$4 million in 1997. Excluding the goodwill revaluation, Overnite would have posted net income of \$25 million, a \$21 million improvement over 1997, including goodwill amortization of \$15 million in 1998 and \$20 million in 1997.

OPERATING REVENUES - Operating revenues improved \$88 million (9%) to \$1.0 billion, reflecting a 2% rise in volumes combined with a 7% improvement in price, as OTC continued to benefit from its focus on eliminating low margin business and continuing its pricing initiatives. Improved volumes included a 4% improvement in LTL tonnage partially offset by a 16% decrease in TL tonnage, reflecting OTC's focus on its core LTL business.

OPERATING EXPENSES - Operating expenses increased \$606 million to \$1.5 billion. Excluding the goodwill revaluation, operating expenses would have increased \$59 million (6%) to \$995 million. Salaries, wages and employee benefits were up \$44 million, reflecting volume growth and inflation that more than offset productivity improvements. Equipment rents increased \$7 million (9%) reflecting higher volumes and increased use of third-party transportation. Depreciation and amortization declined \$2 million, as the effect of capital spending was more than countered by lower goodwill amortization caused by the goodwill write-down. Materials and supplies costs were up \$8 million, reflecting higher repair activities. Fuel costs declined \$4 million, driven by a 16% decrease in fuel prices, which was only partially mitigated by a 2% increase in shipments. Other costs rose \$7 million due to a volume-related increase in damaged freight costs and higher property and use taxes.

OPERATING INCOME - Overnite reported a 1998 operating loss of \$508 million. Excluding the effect of the goodwill revaluation, 1998 operating income would have been \$39 million, compared to operating income of \$10 million in 1997, while Overnite's operating ratio (including goodwill amortization but excluding the goodwill revaluation) would have improved to 96.2% in 1998 from 98.9% in 1997. Excluding goodwill amortization, the operating ratio would have declined to 94.8% in 1998 from 96.8% in 1997, a 2 point improvement.

## OTHER OPERATIONS

Corporate services and other operations consists of corporate expenses, third-party interest charges, intercompany interest allocations, other income and income taxes related to the Corporation's holding company operations and the results of other operating units (see Note 1 to the Financial Statements). Operating revenues declined \$1 million year-over-year. Operating expenses decreased \$24 million, reflecting the absence of 1997 costs associated with the relocation of the corporate office and cost savings from reductions in the corporate staff. Operating losses declined \$23 million, also due to the corporate restructuring and improved operations at the Corporation's technology subsidiary. Net losses from these operations declined \$54 million, largely due to the absence of the 1997 loss provision for the sale of Skyway and the benefits of corporate restructuring.

## 1997 COMPARED TO 1996

### CONSOLIDATED

**NET INCOME** - The Corporation reported consolidated net income of \$432 million (\$1.76 per basic share and \$1.74 per diluted share) in 1997 compared to \$904 million (\$4.17 per basic share and \$4.14 per diluted share) in 1996, which included Resources as discontinued operations (see Note 3 to the Financial Statements).

**INCOME FROM CONTINUING OPERATIONS** - In 1997, the Corporation reported income from continuing operations of \$432 million (\$1.76 per basic share and \$1.74 per diluted share), compared to 1996 results of \$733 million (\$3.38 per basic share and \$3.36 per diluted share). This decline in earnings is the result of the congestion that lowered train velocity, causing operating costs to rise while carloading volumes declined.

**OPERATING REVENUES** - Operating revenues increased \$2.3 billion (26%) to \$11.1 billion in 1997, reflecting increased volumes at the Railroad (the result of the full-year effect of the Southern Pacific merger). Merger-related revenue growth was partially offset by volume declines resulting from congestion issues and a 2% volume-related revenue decline at Overnite. Operating expenses increased \$2.6 billion (35%) to \$9.9 billion in 1997, primarily the result of the addition of Southern Pacific's operations, congestion costs at the Railroad and general inflation. These factors resulted in increases in salaries, wages and employee benefits (\$906 million); rent expense (\$438 million); fuel and utilities costs (\$252 million) and materials and supplies (\$91 million). Depreciation charges rose \$281 million, primarily due to the addition of SP and UPC's continued reinvestment in its equipment and rail infrastructure. Casualty costs increased \$112 million, reflecting a \$77 million increase in personal injury costs caused by the addition of a full year of SP costs. Property and use taxes increased \$43 million, also due to a full year impact of SP costs. Other costs increased \$458 million, primarily related to the service and congestion issues (\$138 million); repair and maintenance expenses (\$27 million); and a full year effect of SP expenses.

**OPERATING INCOME** - Operating income declined \$288 million (20%) to \$1.1 billion in 1997, the result of a \$349 million decrease at the Railroad due to congestion, partially offset by improved results at Overnite.

**NON-OPERATING ITEMS** - Other income declined \$45 million, primarily attributable to the loss recognized in connection with the Corporation's investment in Skyway. Interest expense increased \$104 million, the result of higher debt levels associated with the Southern Pacific acquisition.

**KEY MEASURES** - Income from continuing operations as a percentage of operating revenues declined to 3.9% from 8.3% in 1996. Return on average common stockholders' equity dropped to 5.3% in 1997 from 12.4% in 1996, reflecting the impact of the service and congestion issues. In addition, the Corporation's operating ratio was 89.7% in 1997, compared to 83.7% in 1996.

### RAIL

The following discussion is based upon pro forma 1996 results as if the SP acquisition had occurred on January 1, 1996:

The Railroad earned \$620 million in 1997 compared to \$871 million in 1996. This decline in earnings is the result of congestion issues that arose in the third quarter and continued through the remainder of 1997.

**REVENUE SUMMARY (PRO FORMA)** - Operating revenues were 1% lower in 1997. Average commodity revenue per car increased 3% resulting from improved traffic mix, while carloadings declined 4%.

The following table summarizes the year-over-year change in rail commodity revenues and ARC by commodity type:



-----  
 Carloads in Thousands, Commodity Revenues in Millions of Dollars

	1997			Change			% Change		
	Cars	ARC	CR	Cars	ARC	CR	Cars	ARC	CR
Automotive.....	641	\$1,486	\$ 953	16	\$(10)	\$ 18	3%	(1)%	2%
Agriculture.....	916	1,578	1,446	(85)	60	(74)	(8)	4	(5)
Intermodal.....	2,747	629	1,728	(33)	7	(2)	(1)	1	-
Chemicals.....	972	1,764	1,714	(7)	(29)	(40)	(1)	(2)	(2)
Energy.....	1,736	1,102	1,913	(42)	35	15	(2)	3	1
Industrial.....	1,441	1,358	1,958	(210)	159	(21)	(13)	13	(1)
Total.....	8,453	\$1,149	\$9,712	(361)	\$ 35	\$(104)	(4)%	3%	(1)%

Carloadings for the year were down 4% from 1996 loads. Declines were principally caused by traffic congestion, implementation of the Service Recovery Process and the first quarter of 1997 sale of the Duck Creek North line. Overall, ARC was up \$35 to \$1,149 for the year, as a result of improved traffic mix.

Automotive - Commodity revenue grew 2% to \$953 million as carloadings increased 3% on continued auto industry sales growth. Strong import and domestic demand caused finished vehicle carloadings to increase 3%, in spite of industry-wide equipment shortages and unscheduled auto plant shutdowns. Auto parts volumes grew by 2%, as strong Mexico volumes exceeded congestion-related diversions of traffic. Average commodity revenue per car declined \$10 or 1%, reflecting the impact of shorter-haul traffic.

Agriculture - Carloadings fell 8% and related commodity revenues fell \$74 million (5%) to \$1.4 billion. These decreases reflected a reduction in base business carloadings in most lines of business, the result of slow cycle times on wheat and corn shuttles, as well as congestion problems and related equipment shortages. Strong worldwide wheat competition in the first half of 1997 hurt wheat exports and contributed to a 13% decline in wheat carloadings. Meals and oils reported a 5% increase in volume, the result of strong export markets in Mexico. Average commodity revenue per car rose 4% resulting from more longer-haul export traffic and higher rates from maintaining a car inventory available for grain customers.

Intermodal - Commodity revenues were flat at \$1.7 billion, as traffic volumes fell 1%. Strong market demand and new business opportunities were more than offset by congestion issues later in the year, including the temporary suspension of business in specific areas as part of the Service Recovery Process, industry-wide equipment shortages and related diversions to truck and other railroads. Average commodity revenue per car rose 1% caused by favorable traffic mix compared to 1996.

Chemicals - Carloadings were down 1%, while commodity revenues fell 2% to \$1.7 billion in 1997. Strong market demand could not be met due to the system congestion and equipment shortages. This resulted in some diversion of business to alternate transportation modes and competitors. Average commodity revenue per car fell \$29 or 2%, due to strong competitive pressures and a shift in the business mix (increased short-haul business of low-ARC products).

Energy - Commodity revenues were up 1% at \$1.9 billion in 1997, while carloadings fell 2%. Average commodity revenue per car increased 3%, driven by higher-rated business and an improved business mix. Volume decreases reflected the impact of congestion on the ability of the Railroad to meet both domestic and foreign utilities' demand for low-sulfur, PRB coal. Severe weather, derailments in key corridors and congestion had a significant impact on PRB train cycles in 1997. During the worst of the congestion, daily trains out of the PRB averaged only 21 trains per day versus 25 trains per day prior to the congestion and 24 trains per day in 1996.

Industrial - Carloadings decreased 13% and commodity revenues declined 1% to \$2.0 billion. Volume decreases primarily reflected the impact of congestion and the first quarter 1997 sale of the Duck Creek North line. The largest decline was seen in metallic minerals (55%), due to reduced iron ore shipments associated with the Duck Creek North line and smaller decreases in most other industrial product lines. Average commodity revenue per car grew 13%, reflecting a longer average length of haul due to the above mentioned line sale.

EXPENSE SUMMARY (PRO FORMA) - Operating expenses increased \$286 million (3%) to \$8.7 billion in 1997, primarily from congestion costs and inflation offset somewhat by merger benefits, cost containment programs and lower volumes.

Salaries, wages and employee benefits - Expenses increased \$50 million (1%), the result of higher recrew rates in the second half of 1997, one-time merger severance payments and wage inflation from new national labor agreements. These cost increases were partially offset by reduced volumes (congestion) and lower staff levels from merger-related severance and other productivity gains.

Rent - Expense increased \$139 million (12%) from longer car cycle times, incremental costs associated with providing grain cars, more operating leases and price increases, which were somewhat offset by reduced volumes and merger efficiencies.

Depreciation - Charges rose \$72 million (8%), primarily reflecting the Railroad's continued reinvestment in its equipment and rail infrastructure.

Fuel and utilities - Costs grew \$3 million, the result of a slight increase in fuel prices (net of fuel hedging), slightly offset by a reduced fuel consumption rate and lower volumes.

Materials and supplies - Expenses declined \$18 million (3%), reflecting material contract savings associated with the merger and the favorable timing of scheduled maintenance.

Other costs - Expenses increased \$40 million, primarily reflecting congestion costs including alternate transportation and customer claims, as well as one-time merger costs. These were somewhat offset by spending reductions and merger benefits.

OPERATING INCOME - Operating income declined \$418 million (25%) to \$1.25 billion in 1997, while the operating ratio increased from 83.5% to 87.4% in 1997, reflecting the effect of congestion and related declines in train velocity.

NON-OPERATING ITEMS (PRO FORMA) - Other income and expense, net, improved \$48 million to \$301 million, primarily the result of refinancing activities, lower interest rates and higher asset sales including real estate, rail line and other assets. Income taxes (state and Federal) of \$332 million were favorable by \$118 million compared to 1996, primarily the result of lower pre-tax income.

#### TRUCKING

NET INCOME - Throughout 1997, Overnite continued to benefit from several strategic initiatives implemented in 1996 to better compete in the trucking industry environment. Actions taken included workforce reductions, service center consolidations, centralization of the linehaul management process, and pricing initiatives targeting Overnite's lowest margin customers. As a result, Overnite reported a net income of \$4 million in 1997 compared to a net loss of \$43 million in 1996. Results for both periods included goodwill amortization of \$20 million.

OPERATING REVENUES - Operating revenues decreased \$15 million (2%) to \$946 million as a 13% decrease in volumes more than offset improvements in average prices - resulting from Overnite's pricing initiatives. A 10% decrease in LTL tonnage and a 38% decrease in TL tonnage drove lower volumes.

OPERATING EXPENSES - Operating expenses decreased \$92 million to \$936 million. Salaries, wages and employee benefit costs decreased \$51 million, reflecting improved productivity, workforce reductions and lower volumes, partially offset by wage and benefit inflation. Fuel and utility costs declined \$10 million, driven by a 7% decrease in fuel prices, a 13% volume-related reduction in fuel consumption and improved fuel economy resulting from an upgraded fleet.

OPERATING INCOME - Overnite reported 1997 operating income of \$10 million, compared to an operating loss of \$67 million in 1996, while Overnite's operating ratio (including goodwill amortization) improved to 98.9% in 1997 from 107.0% in 1996.

#### OTHER OPERATIONS

Operating revenues improved \$7 million year-over-year, reflecting revenue improvements at Skyway and the Corporation's technology subsidiary. Operating expenses increased \$23 million, while operating losses increased \$16 million, as a result of costs associated with relocating the corporate office to Texas and higher operating costs at the Corporation's other operating units. Net losses from these operations increased \$28 million, reflecting the loss provision from the sale of Skyway and costs associated with the corporate relocation partially offset by a gain on the sale of corporate aircraft.

## CASH FLOWS, LIQUIDITY AND FINANCIAL RESOURCES

### FINANCIAL CONDITION

In 1998, cash from operations was \$565 million, compared to \$1.6 billion in 1997. This \$1,035 million decrease reflects lower earnings and the timing of working capital requirements due to congestion and merger implementation issues, as well as a deferral of tax benefits generated by the Corporation's loss position. 1998 tax losses will be either carried forward to future periods or carried back against prior periods taxable income.

Cash used in investing activities was \$1.9 billion in 1998 compared to \$1.8 billion in 1997, an increase of 7%. Capital investments were flat year-over-year at \$2.1 billion as the Railroad continued spending for equipment, track renewal and maintenance, capacity and merger integration. The increase in investing activities was created by lower cash proceeds from asset sales (1997 included several significant property and rail line sales that did not recur in 1998) and the funding of the Railroad's investment in Mexican rail operations.

Cash provided by equity and financing activities was \$1.4 billion in 1998 compared to \$71 million in 1997. This change in cash provided by equity and financing activities principally reflects the need for UPC to borrow funds to support capital spending levels and to replace operating cash shortfalls caused by congestion issues. The ratio of debt to debt plus equity decreased to 49.4% in 1998, compared to 50.9% at December 31, 1997. This change resulted from the private placement of the Convertible Preferred Securities described below, which are considered equity in the calculation of the ratio of debt to debt plus equity, somewhat offset by increased debt levels.

### FINANCING ACTIVITIES

**PREFERRED SECURITIES** - In April 1998, the Corporation completed a private placement of \$1.5 billion of 61.4% preferred securities of a statutory business trust sponsored and wholly-owned by the Corporation ("Preferred Securities"). Each of the Preferred Securities is convertible, at the option of the holder, into shares of UPC's common stock at the rate of 0.7257 shares of UPC's common stock at a conversion price of \$68.90 per share of UPC common stock, subject to adjustment under certain circumstances. Proceeds from the sale of the Preferred Securities were used for repayment of other corporate borrowings (see Note 7 to the Financial Statements).

**CREDIT FACILITIES** - The Corporation has \$4 billion of credit facilities with various banks designated for general corporate purposes, of which \$3.8 billion is unused at December 31, 1998. \$1.2 billion of these facilities expires in 1999, while the remaining \$2.8 billion expires in 2001. Commitment fees and interest rates payable under these facilities are similar to fees and rates available to comparably rated investment-grade corporate borrowers.

**SHELF REGISTRATION** - In October 1998, the Corporation designated the balance of its shelf registration statement (\$1,225 million) as potentially available for a medium-term note program. By December 31, 1998, the Corporation had issued \$598 million under the medium-term note program and intends to continue to issue debt from time to time either pursuant to the medium-term program or in underwritten transactions, with the proceeds of such issuances to be used for general corporate purposes, including repayment of maturing debt or commercial paper borrowings. At December 31, 1998, the Corporation had \$627 million remaining to be issued under its shelf registration.

### OTHER MATTERS

**PERSONAL INJURY** - In 1998, work-related injuries that resulted in lost job time declined 6% compared to 1997, and accidents at grade crossings declined by 14%. Additionally, the average cost of employee injury claims settled in 1998 declined 8% over the prior year. Annual expenses for the Railroad's injury-related events were \$311 million in 1998, \$328 million in 1997 and \$251 million in 1996. Compensation for work-related accidents is governed by the Federal Employers' Liability Act (FELA). Under FELA, damages are assessed based on a finding of fault through litigation or on out-of-court settlements. The Railroad offers a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

**ENVIRONMENTAL COSTS** - The Corporation generates and transports hazardous and nonhazardous waste in its current and former operations, and is subject to Federal, state and local environmental laws and regulations. The Corporation has identified approximately 415 sites, including 44 sites currently on the Superfund National Priorities List, at which it is or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. Certain Federal legislation imposes joint and several liability for the

remediation of identified sites; consequently, the Corporation's ultimate environmental liability may include costs relating to other parties, in addition to costs relating to its own activities at each site.

A liability of \$207 million has been accrued for future costs at all sites where the Corporation's obligation is probable and where such costs can be reasonably estimated; however, the ultimate cost could be lower or as much as 25% higher. The liability includes future costs for remediation and restoration of sites, as well as for ongoing monitoring costs, but excludes any anticipated recoveries from third parties. Cost estimates were based on information available for each site, financial viability of other potentially responsible parties (PRPs), and existing technology, laws and regulations. The Corporation believes that it has adequately accrued for its ultimate share of costs at sites subject to joint and several liability. However, the ultimate liability for remediation is difficult to determine with certainty because of the number of PRPs involved, site-specific cost sharing arrangements with other PRPs, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and/or the speculative nature of remediation costs.

Remediation of identified sites previously used in operations, used by tenants or contaminated by former owners required spending of \$58 million in 1998 and \$46 million in 1997. The Corporation is also engaged in reducing emissions, spills and migration of hazardous materials, and spent \$9 million and \$7 million in 1998 and 1997, respectively, for control and prevention, a portion of which has been capitalized. In 1999, the Corporation anticipates spending \$83 million for remediation and \$6 million for control and prevention. The majority of the December 31, 1998 environmental liability is expected to be paid out over the next five years, funded by cash generated from operations. Future environmental obligations are not expected to have a material impact on the results of operations or financial condition of the Corporation.

#### LABOR MATTERS

Rail - Approximately 87% of the Railroad's 53,000 employees are represented by rail unions. Under the conditions imposed by the STB in connection with the Southern Pacific acquisition, labor agreements between the Railroad and the unions must be negotiated before the UPRR and Southern Pacific rail systems can be fully integrated. To date, the Railroad has successfully reached agreements with the shopcraft, carmen, clerical and maintenance-of-way unions. The negotiations with other operating crafts are proceeding on schedule, with seven hub-and-spoke agreements having been reached. Under the hub-and-spoke concept, all operating employees in a central "hub" are placed under a single set of collective bargaining agreements with the ability to work on the "spokes" running into and out of the hub. The terms of ratified and pending labor agreements are not expected to have a material adverse effect on the Corporation's results of operations. The current national bargaining agreement will end in 2000. The Corporation expects notices for negotiations to be served in November 1999.

Trucking - Overnite continues to oppose the efforts of the International Brotherhood of Teamsters (Teamsters) to unionize Overnite service centers. Since year-end 1994, Overnite has received 89 petitions for union elections at 66 of its 165 service centers. Twenty-one service centers, representing approximately 14% of Overnite's nationwide workforce, have voted for union representation, and the Teamsters have been certified and recognized as the bargaining representative for such employees. Elections affecting approximately 400 additional employees are unresolved, and there are no elections currently scheduled. To date, Overnite has not entered into any collective bargaining agreements with the Teamsters; however, Overnite is engaged in collective bargaining negotiations over union contract demands at the 21 represented locations.

INFLATION - The cumulative effect of long periods of inflation has significantly increased asset replacement costs for capital-intensive companies such as the Railroad and Overnite. As a result, depreciation charges on an inflation-adjusted basis, assuming that all operating assets are replaced at current price levels, would be substantially greater than historically reported amounts.

FINANCIAL INSTRUMENTS - The Corporation uses derivative financial instruments in limited instances for other than trading purposes to manage risk as it relates to fuel prices and interest rates. Where the Corporation has fixed interest rates or fuel prices by using swaps, futures or forward contracts, the Corporation has mitigated the downside risk of adverse price and rate movements; however, it has also limited future gains from favorable movements.

Interest Rates - The Corporation manages its overall exposure to fluctuations in interest rates by adjusting the proportion of fixed and floating rate debt instruments within its debt portfolio over a given period. Derivatives are used in limited circumstances as one of the tools to obtain the targeted mix. The mix of fixed and floating rate debt is largely managed through the issuance of targeted amounts of each as debt matures or incremental borrowings are required. The Corporation also obtains additional flexibility in managing interest costs and the interest rate mix within its debt portfolio by issuing callable fixed rate debt securities.

Fuel - Over the past three years, fuel costs have been a significant portion of the Corporation's total operating costs. As a result of the significance of fuel costs and the historical volatility of fuel prices, the Corporation periodically uses swaps, futures and forward fuel purchase contracts to mitigate the risk of fuel price volatility. The intent of this program is to protect the Corporation's operating margins and overall profitability from adverse fuel price changes.

Sensitivity Analysis - UPC had a number of interest rate swaps and fuel hedging contracts in place at year-end 1998 (see Note 4 to the Financial Statements). If market interest rates changed by 5%, the related change in the value of interest rate swaps would be approximately \$10 million. If fuel costs changed by 5%, the related change in the value of fuel hedging contracts would be approximately \$20 million.

COMMITMENTS AND CONTINGENCIES - There are various claims and lawsuits pending against the Corporation and certain of its subsidiaries. In addition, the Corporation and its subsidiaries are subject to various Federal, state and local environmental laws and are currently participating in the investigation and remediation of various sites. A discussion of certain claims, lawsuits, guarantees and contingencies is set forth in Note 12 to the Financial Statements, which is incorporated by reference. Reference is also made to "Item 3. Legal Proceedings" of the Corporation's Form 10-K to be filed on or before March 31, 1999.

SURFACE TRANSPORTATION BOARD PROCEEDINGS - The Railroad was a party to two proceedings before the Surface Transportation Board of the U.S. Department of Transportation (STB) that concluded in the latter half of 1998. One proceeding pertained to rail service problems in the western United States, in which the STB had issued an emergency service order in October 1997 that imposed certain temporary measures on the Railroad designed, among other things, to reduce congestion on the Railroad's lines in the Houston, Texas area. In July 1998, the STB issued a decision that terminated the emergency service order as of August 2, 1998 but kept in place the requirement that the Railroad periodically report certain service data. The STB also prescribed a 45-day "wind-down" period during which certain rights that other carriers had received under the emergency service order to handle the Railroad's traffic in Houston would be continued. The "wind-down" period expired September 17, 1998. The reporting requirement expired in mid-January 1999 when the Railroad joined other railroads in reporting service data through the Association of American Railroads.

A second proceeding, initiated in March 1998 under the STB's continuing oversight jurisdiction with respect to the merger of the Corporation and Southern Pacific, was for the purpose of considering proposals for new remedial conditions to the merger pertaining to service in the Houston, Texas area and surrounding coastal areas of Texas and Louisiana. Various parties filed applications in this proceeding seeking the imposition of additional conditions to the merger including, among other things, requests by certain parties for conditions that would effectively open up access to shippers on the Railroad's lines and permit competing carriers to serve those shippers. On December 21, 1998, the STB issued a decision in the proceeding which imposed conditions that were meant to enhance efficiency and facilitate the smooth movement of rail traffic through the Houston area; that granted approximately four miles of additional trackage rights to The Burlington Northern and Santa Fe Railway Company to create a new interchange with a short-line railroad in the Austin, Texas area; and that imposed certain annual reporting requirements on the Railroad with respect to the implementation of its infrastructure plan for the Houston/Gulf Coast region. The STB did not, however, grant the requests of those applicants seeking open access to shippers not currently served by other carriers on the Railroad's lines, stating that the propriety of an open access regulatory scheme for the railroad industry is a matter more appropriately addressed by Congress.

ACCOUNTING PRONOUNCEMENTS - In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), that will be effective January 1, 2000. Management is in the process of determining the effect, if any, FAS 133 will have on the Corporation's financial statements.

#### A LOOK FORWARD

TRANSFORMATION - The Corporation's strategy to focus on its core rail business has caused its rail operations to grow substantially. Since 1994, the year prior to the CNW acquisition, the Railroad has nearly doubled the size of its rail system, doubled the size of its locomotive and freight car fleets and added nearly 20,000 employees to its rail operations. This substantial growth in combination with congestion issues the Railroad has faced caused management to reexamine its rail management process and organizational structure. To provide an organizational structure to facilitate UPC's Service Recovery Process, two key initiatives have been developed:

Decentralization - In the third quarter of 1998, the Railroad began a process of decentralization. Three operating regions were created. Each region is composed of various service units that make all day-to-day decisions for that region on all local and through-freight train operations, yard operations, mechanical, car and locomotive management issues. This change shifts decisions that were historically centralized in Omaha to the field operations. To help support the decision-making process, people from key disciplines such as engineering, safety, quality, finance and human resources have been assigned to each region. This strategy will allow the rail system to be divided into more manageable components and will allow decision makers to be deployed where system bottlenecks are occurring.

Network Design and Integration (NDI) - The NDI team was established to help integrate market and resource planning and is organized by three separate product offerings (premium, bulk and manifest business). NDI's focal point will be to better match customer requirements to UPRR's operational capability with an emphasis on improving consistency and dependability of service to customers. NDI will focus on developing a transportation plan that meets customer commitments, while maximizing system resources to help improve service levels.

1999 BUSINESS OUTLOOK - Financial results in 1999 will continue to be impacted by the effects of the congestion and service issues at the Railroad; however, management expects that the improvement in operating results and financial performance that began in the third quarter of 1998 will continue to gain momentum into 1999.

Rail - The Railroad anticipates revenue gains from higher coal volumes, as congestion in the Central Corridor continues to be eliminated and UPRR is able to meet the current strong demand. Auto traffic is expected to improve due to strong Ford and Chrysler business and the absence of the effects of the 1998 GM strike. Operating efficiency is also anticipated to improve in 1999, as higher train velocity generates improvements in costs for equipment (improved utilization and cycle times) and crews (fewer re-crews), while costs incurred related to service disruptions with customers are not expected to recur in 1999. In addition, the Railroad will continue to focus on implementation of the SP merger integration plan and achieving the operational and financial benefits associated with the integration.

Trucking - Overnite will continue to focus on streamlining its business operations and maximizing its product mix to be competitive in the current trucking industry environment. Through these efforts, Overnite will work to improve its financial results during 1999. UPC will also continue to explore opportunities to sell OTC in 1999, either through an IPO or a direct sale to a third-party buyer.

Risk Factors - The Corporation's future results can be affected by changes in the economic environment, fluctuations in fuel prices and external factors such as weather. Several of the commodities transported by both Overnite and the Railroad come from industries with cyclical business operations. As a result, prolonged negative changes in U.S. and global economic conditions can have an adverse effect on the Corporation's operating results. The Railroad's and Overnite's results can also be affected adversely by increases in diesel fuel costs, to the extent that such costs are not recovered through higher revenues and improved fuel conservation or mitigated by hedging activity. In addition, rail operations are much more susceptible to prolonged interruptions due to weather or derailment as operations continue to recover from the effects of system congestion that began late in 1997. The Corporation's future results are dependent on the continued success of its Service Recovery Process in

preventing congestion and improving service, and regaining its customers who switched to alternative transportation arrangements during the service crisis.

1999 CAPITAL INVESTMENTS - The Corporation's 1999 capital expenditures, debt service requirements and payments related to the integration of Southern Pacific's rail operations are expected to be funded through cash generated from operations, additional debt financings and the sale or lease of various operating and non-operating properties. The Corporation expects that such sources will continue to provide sufficient funds to meet cash requirements in the foreseeable future. The Corporation expects to spend \$1.7 to \$1.9 billion on capital-related projects in 1999, including over \$200 million to continue to integrate the Southern Pacific rail system. Railroad-related capital expenditures will be used to continue capacity expansion on its main lines, upgrade and augment equipment to better meet customer needs, build infrastructure in the Texas area (UPC has committed to spend \$1.4 billion over the next few years on Gulf Coast infrastructure) and develop and implement new technologies. Overnite will continue to maintain its truck fleet and upgrade technology.

YEAR 2000 - The Year 2000 (Y2K) compliance project at UPC includes software (internally developed and purchased), hardware and embedded chips inside equipment and machinery, primarily at the Railroad. The Corporation's enterprise-wide project encompasses computer systems and equipment in multiple data centers and a telecommunications network spread over 23 states. Equipment containing embedded computer chips includes locomotives, automated train switching systems, computer aided train dispatching systems, signaling systems, computerized fueling stations, weigh-in-motion scales, cranes, lifts, PBX systems, elevators, and computerized monitoring systems throughout UPC. The Y2K project started with research in 1994 and an impact analysis of the Corporation's mainframe COBOL systems in 1995. The Y2K project has been a high priority since then.

UPC's Y2K Project is divided into five major initiatives, as follows:

Mainframe Systems - These systems have been converted, tested and deemed to be Y2K compliant as of December 31, 1998. Periodic audits are planned during 1999 to help ensure that tested programs remain Y2K compliant.

Client Server Systems - Modifications of these systems are on schedule, and the Corporation believes that all critical client server systems have been converted, tested, and deemed to be Y2K compliant as of December 31, 1998. The non-critical client server systems are scheduled to be tested as Y2K compliant by mid-1999.

User Department Developed Systems - These systems consist of both mainframe and PC-based systems developed by internal user departments. Modifications of these systems are on schedule, and the Corporation estimates that approximately 95% of the systems are complete as of December 31, 1998, and the remaining 5% are mostly low priority systems that are scheduled to be completed in the first half of 1999.

Vendor Supplied and Embedded Systems - These systems consist of vendor-supplied software, desktop, mainframe and server hardware, databases and operating systems, as well as equipment and machinery with embedded systems. Approximately 90% of the suppliers of these systems have indicated that they have a comprehensive Year 2000 plan. The review of the remaining 10% is scheduled to be completed in early 1999, which will result in either comprehensive plans or a contingency direction. To help assure safety and Y2K compliance, UPC is testing selected critical software, hardware and embedded systems, even if the vendor has already certified the product. The Corporation is sharing information on the compliance and testing of safety critical components common to the industry with the cooperation of the Association of American Railroads (AAR).

Electronic Commerce Systems - These systems consist of all electronic exchanges of information with customers, vendors, other railroads, and financial institutions. The railroad industry has agreed on a standard 4-digit year for all electronic interchanges. The Railroad can now transmit and receive the new EDI standard that involves a 4-digit year. The Corporation plans extensive Y2K testing with customers and trading partners in 1999.

For each of these initiatives, seven major categories of events have been identified for contingency plans. These categories are (1) key data - integrity/loss, (2) critical software, (3) critical hardware, (4) communications, (5) critical supplies and suppliers, (6) facilities, and (7) key personnel. The contingency plans also include a Y2K command center that will be staffed 24 hours a day in the fourth quarter of 1999 and continuing into early 2000 for any problems that might occur due to Y2K. The staff

will be composed of technical experts to fix or advise what to fix if systems fail, and knowledgeable representatives from each business unit. Contingency plans continue to be developed and will be refined and adjusted throughout 1999.

As of December 31, 1998, approximately 90% of the Corporation's systems (excluding Overnite) have been converted, tested, and deemed to be Y2K compliant, and the remaining systems are expected to be modified by the second quarter of 1999. Modification to Overnite's systems comprises approximately 10% of UPC's total Y2K workload, and is estimated to be 90% complete. The remaining modification to Overnite's systems is expected to be completed in the second quarter of 1999. Costs to convert UPC's systems are expensed as incurred. As of December 31, 1998, more than 60% of the costs of the Y2K project, estimated to be \$61 million in total, have been expensed. Although the Corporation believes its systems will be successfully modified, failure by it, or by those from whom UPC purchases equipment, or by other entities with whom UPC exchanges data, or on whom it relies for data, to successfully modify their systems, could materially impact operations and financial results in the year 2000.

#### CAUTIONARY INFORMATION

Certain information included in this report contains, and other materials filed or to be filed by the Corporation with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Corporation) contain or will contain, forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Such forward-looking information may include, without limitation, statements that the Corporation does not expect that claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or other matters will have a material adverse effect on its consolidated financial condition, results of operations or liquidity and other similar expressions concerning matters that are not historical facts, and projections or predictions as to the Corporation's financial or operational results. Such forward-looking information is or will be based on information available at that time, and is or will be subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to whether the Corporation is fully successful in recovering from the effects of the Railroad's congestion-related problems and implementing its financial and operational initiatives, industry competition and legislative and/or regulatory developments, natural events such as severe weather, floods and earthquakes, the effects of adverse general economic conditions, changes in fuel prices, labor strikes, the impact of year 2000 systems problems and the ultimate outcome of shipper claims related to congestion, environmental investigations or proceedings and other types of claims and litigation.



## INDEPENDENT AUDITORS' REPORT

Union Pacific Corporation, its Directors and Stockholders:

We have audited the accompanying statement of consolidated financial position of Union Pacific Corporation and subsidiary companies as of December 31, 1998 and 1997, and the related statements of consolidated income, changes in common stockholders' equity and consolidated cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Union Pacific Corporation and subsidiary companies at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1998 the Corporation changed its method of measuring enterprise level goodwill impairment from an undiscounted cash flows approach to a fair value method based on a discounted cash flows approach.

Dallas, Texas  
January 21, 1999

### RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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

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

The Audit Committee of the Board of Directors, composed entirely of outside directors, as identified on page 54, meets regularly with financial management, the corporate auditors and the independent auditors to review the work of each. The independent auditors and corporate auditors have free access to the Audit Committee, without management representatives present, to discuss the results of their audits and their comments on the adequacy of internal controls and the quality of financial reporting.

Chairman, President and Chief Executive Officer

Executive Vice President - Finance

Controller

STATEMENT OF CONSOLIDATED INCOME  
Union Pacific Corporation and Subsidiary Companies

Millions of Dollars, Except Per Share Amounts		1998	1997	1996
OPERATING REVENUES	Rail, trucking and other.....	\$10,553	\$11,079	\$8,786
OPERATING EXPENSES	Salaries, wages and employee benefits [Note 9].	4,348	4,166	3,260
	Equipment and other rents.....	1,426	1,404	966
	Depreciation and amortization [Notes 1 and 5]..	1,070	1,043	762
	Fuel and utilities [Note 4].....	843	1,042	790
	Materials and supplies.....	565	560	469
	Goodwill impairment [Note 1].....	547	--	--
	Casualty costs.....	475	478	366
	Property and use taxes.....	229	226	183
	Other costs.....	1,221	1,016	558
	Total.....	10,724	9,935	7,354
INCOME	Operating Income (Loss).....	(171)	1,144	1,432
	Other income [Note 13].....	189	137	182
	Interest expense [Notes 4 and 7].....	(714)	(605)	(501)
	Income (Loss) before Income Taxes.....	(696)	676	1,113
	Income taxes [Note 6].....	63	(244)	(380)
	Income (Loss) from Continuing Operations.....	(633)	432	733
	Income from Discontinued Operations [Note 3]...	--	--	171
	Net Income (Loss).....	\$ (633)	\$ 432	\$ 904
PER SHARE [Note 11]	Basic:			
	Income (Loss) from Continuing Operations.....	\$ (2.57)	\$ 1.76	\$ 3.38
	Income from Discontinued Operations.....	--	--	0.79
	Net Income (Loss).....	\$ (2.57)	\$ 1.76	\$ 4.17
	Diluted:			
	Income (Loss) from Continuing Operations.....	\$ (2.57)	\$ 1.74	\$ 3.36
	Income from Discontinued Operations.....	--	--	0.78
	Net Income (Loss).....	\$ (2.57)	\$ 1.74	\$ 4.14
	Dividends.....	\$ 0.80	\$ 1.72	\$ 1.72

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

## STATEMENT OF CONSOLIDATED FINANCIAL POSITION

## Union Pacific Corporation and Subsidiary Companies

		Millions of Dollars	1998	1997
<b>ASSETS</b>				
<b>Current Assets</b>	Cash and temporary investments.....		\$ 176	\$ 90
	Accounts receivable [Note 4].....		643	727
	Inventories.....		343	296
	Current deferred tax asset [Note 6].....		244	129
	Other current assets.....		96	269
	<b>Total.....</b>		<b>1,502</b>	<b>1,511</b>
<b>Investments</b>	Investments in and advances to affiliated companies [Note 1]		520	443
	Other investments.....		171	181
	<b>Total.....</b>		<b>691</b>	<b>624</b>
<b>Properties</b>	Cost [Notes 5 and 7].....		33,145	31,514
	Accumulated depreciation [Note 5].....		(6,206)	(5,537)
	<b>Net.....</b>		<b>26,939</b>	<b>25,977</b>
<b>Other</b>	Excess acquisition costs net [Note 1].....		--	562
	Other assets.....		242	186
	<b>Total Assets.....</b>		<b>\$29,374</b>	<b>\$28,860</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>	Accounts payable.....		\$ 586	\$ 758
	Accrued wages and vacation.....		410	421
	Accrued casualty costs.....		400	427
	Income and other taxes [Note 6].....		301	268
	Dividends and interest.....		289	295
	Debt due within one year [Note 7].....		181	233
	Other current liabilities.....		765	941
	<b>Total.....</b>		<b>2,932</b>	<b>3,343</b>
<b>Other Liabilities and Stockholders' Equity</b>	Debt due after one year [Note 7].....		8,511	8,285
	Deferred income taxes [Note 6].....		6,308	6,252
	Accrued casualty costs.....		995	991
	Retiree benefits obligation [Note 9].....		803	766
	Other long-term liabilities [Note 12].....		932	998
	Preferred securities [Note 7].....		1,500	--
	Common stockholders' equity (page 35).....		7,393	8,225
	<b>Total Liabilities and Stockholders' Equity.....</b>		<b>\$29,374</b>	<b>\$28,860</b>

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

## STATEMENT OF CONSOLIDATED CASH FLOWS

Union Pacific Corporation and Subsidiary Companies

	Millions of Dollars	1998	1997	1996
<b>CASH FROM CONTINUING OPERATIONS</b>	Net Income (Loss).....	\$ (633)	\$ 432	\$ 904
	Non-cash charges to income:			
	Depreciation and amortization.....	1,070	1,043	762
	Goodwill impairment [Note 1].....	547	--	--
	Deferred income taxes [Note 6].....	(74)	300	166
	Other net.....	(29)	(196)	(559)
	Income from discontinued operations [Note 3].....	--	--	(171)
	Changes in current assets and liabilities [Note 2]..	(316)	21	555
	Cash from Continuing Operations.....	565	1,600	1,657
<b>INVESTING ACTIVITIES</b>	Capital investments.....	(2,111)	(2,101)	(1,360)
	Cash provided by discontinued operations [Note 3]..	--	--	41
	Proceeds from Resources' notes receivable repayment [Note 3].....	--	--	650
	Southern Pacific acquisition [Note 2].....	--	--	(586)
	Proceeds from sale of assets and other investing activities [Note 3].....	213	329	161
	Cash Used in Investing Activities.....	(1,898)	(1,772)	(1,094)
<b>EQUITY AND FINANCING ACTIVITIES</b>	Dividends paid [Note 7].....	(255)	(422)	(353)
	Debt repaid.....	(1,789)	(572)	(2,047)
	Financings [Note 7].....	3,480	1,092	1,741
	Other net.....	(17)	(27)	57
	Cash Provided by (Used in) Equity and Financing Activities.....	1,419	71	(602)
	Net Change in Cash and Temporary Investments.....	86	(101)	(39)
	Cash at Beginning of Year.....	90	191	230
	Cash at End of Year.....	\$ 176	\$ 90	\$ 191
<b>CHANGES IN CURRENT ASSETS AND LIABILITIES (Excluding SP Assets and Liabilities Acquired in 1996)</b>	Accounts receivable.....	\$ 84	\$ (157)	\$ (8)
	Inventories.....	(47)	8	12
	Other current assets.....	58	(53)	762
	Accounts, wages and vacation payable.....	(183)	47	4
	Debt due within one year.....	(52)	106	(62)
	Other current liabilities.....	(176)	70	(153)
	Total.....	\$ (316)	\$ 21	\$ 555

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

## STATEMENT OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

Union Pacific Corporation and Subsidiary Companies

Millions of Dollars		1998	1997	1996
COMMON STOCK	Common stock, \$2.50 par value (authorized 500,000,000 shares)			
	Balance at beginning of year (276,047,556 shares issued in 1998; 274,595,151 in 1997; 232,317,010 in 1996).....	\$ 690	\$ 686	\$ 581
	Common stock issued in Southern Pacific acquisition (38,089,704 shares)[Note 2].....	--	--	95
	Conversions, exercises of stock options and other (287,867 shares in 1998; 1,452,405 in 1997; 4,188,437 in 1996).....	1	4	10
	Balance at end of year (276,335,423 shares issued in 1998; 276,047,556 in 1997; 274,595,151 in 1996).....	691	690	686
PAID-IN SURPLUS	Balance at beginning of year.....	4,066	4,009	2,111
	Common stock issued in Southern Pacific acquisition [Note 2].....	--	--	2,381
	Distribution of investment in Resources [Note 3].....	--	--	(638)
	Conversions, exercises of stock options and other....	(13)	57	155
	Balance at end of year.....	4,053	4,066	4,009
RETAINED EARNINGS	Balance at beginning of year.....	5,271	5,262	5,327
	Net Income (Loss).....	(633)	432	904
	Total.....	4,638	5,694	6,231
	Cash dividends declared.....	(197)	(423)	(371)
	Distribution of investment in Resources [Note 3].....	--	--	(598)
TREASURY STOCK	Balance at end of year [Note 7].....	4,441	5,271	5,262
	Balance at end of year, at cost (28,885,160 shares in 1998; 29,045,938 shares in 1997; 27,935,628 in 1996).....	(1,792)	(1,802)	(1,732)
	Total Common Stockholders' Equity [Note 10].....	\$ 7,393	\$ 8,225	\$ 8,225

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

## NOTES TO THE FINANCIAL STATEMENTS

### SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION** -- The consolidated financial statements include the accounts of Union Pacific Corporation (the Corporation or UPC) and all of its subsidiaries. Investments in affiliated companies (20% to 50% owned or where UPC exercises significant influence over an investee's operations) are accounted for on the equity method. All material intercompany transactions are eliminated.

**CASH AND TEMPORARY INVESTMENTS** -- Temporary investments are stated at cost that approximates fair value and consist of investments with original maturities of three months or less.

**INVENTORIES** -- Inventories consist of materials and supplies carried at the lower of cost or market.

**PROPERTY AND DEPRECIATION** -- Properties are carried at cost. Provisions for depreciation are computed principally on the straight-line method based on estimated service lives of depreciable property.

The cost (net of salvage) of depreciable rail property retired or replaced in the ordinary course of business is charged to accumulated depreciation. A gain or loss is recognized in other income for all other property upon disposition.

The cost of internally developed software is capitalized and amortized over a five-year period. An obsolescence review of capitalized software is performed on a periodic basis.

**INTANGIBLE ASSETS** -- Amortization of costs in excess of the fair value of net assets of acquired businesses is generally recorded over 40 years on a straight-line basis. The Corporation regularly assesses the recoverability of its enterprise level goodwill through a review of discounted cash flows (see Note 1).

**REVENUE RECOGNITION** -- Transportation revenues are recognized on a percentage-of-completion basis, while delivery costs are recognized as incurred.

**HEDGING TRANSACTIONS** -- The Corporation periodically hedges fuel purchases and interest rates. Unrealized gains and losses from fuel-related swaps, futures and forward contracts are deferred and recognized as the fuel is consumed. The differential to be paid or received on interest rate swaps is accrued as interest rates change and recognized as interest expense over the life of the agreements. The effect of extinguishments, maturities, terminations and sales is recorded in earnings in the period the instrument terminates (see Note 4).

**EARNINGS PER SHARE** -- Basic earnings per share (EPS) is calculated on the weighted-average number of common shares outstanding during each period. Diluted earnings per share include shares issuable upon exercise of outstanding stock options (see Note 11) and the potential conversion of the preferred securities (see Note 7) where the conversion of such instruments would be dilutive.

**COMPREHENSIVE INCOME** -- The Corporation adopted the provisions of Statement No. 130, "Reporting Comprehensive Income," in 1998 and had no items of comprehensive income to report in 1998, 1997 or 1996.

**USE OF ESTIMATES** -- The consolidated financial statements of the Corporation include estimates and assumptions regarding certain assets, liabilities, revenues and expenses and the disclosure of certain contingent assets and liabilities. Actual future results may differ from such estimates.

**CHANGE IN PRESENTATION** -- Certain prior year amounts have been reclassified to conform to the 1998 financial statement presentation.

### 1. OPERATIONS AND SEGMENTATION

UPC consists of two major transportation segments, rail and trucking, operating principally in the United States.

#### RAIL

**OPERATIONS** -- The Corporation's largest segment is Union Pacific Railroad Company (UPRR), including as of May 1, 1995, Chicago and North Western Transportation Company (CNW), and as of October 1, 1996, Southern Pacific Rail Corporation (Southern Pacific or SP) (collectively the Railroad). In addition during 1997, the Railroad and a consortium of partners were granted a 50-year concession to operate the Pacific-North and Chihuahua Pacific lines in Mexico (see Note 2).

The Railroad is the largest rail system in the United States, with nearly 34,000 route miles linking Pacific Coast and Gulf Coast ports to the Midwest and eastern U.S. gateways and providing several north/south corridors to key Mexican gateways. The Railroad serves the western two-thirds of the country and maintains coordinated schedules with other carriers for the handling of freight to and from the Atlantic Coast, the Pacific Coast,

the Southeast, the Southwest, Canada and Mexico. Export and import traffic is moved through Gulf Coast and Pacific Coast ports and across the Mexican and (primarily through interline connections) Canadian borders. The Railroad is subject to price and service competition from other railroads, motor carriers and barge operators. The Corporation finalized the integration of CNW in 1996 and expects to complete the integration of the operations of Southern Pacific over the next three years.

**EMPLOYEES** -- Approximately 87% of the Railroad's 53,000 employees are represented by rail unions. During 1996, nearly all of UPRR's unionized workforce ratified five-year national agreements, which include a combination of general wage increases and lump-sum payments. In addition, the agreements provide for increased flexibility in work rules. Under the conditions imposed by the Surface Transportation Board of the U.S. Department of Transportation (STB) in connection with the Southern Pacific acquisition, labor agreements between the Railroad and the unions representing SP employees must be negotiated before the UPRR and SPrail systems can be fully integrated. To date, the Railroad has successfully reached agreements with the shopcraft, carmen, clerical and maintenance-of-way unions. The negotiations with the operating crafts are proceeding on schedule. The terms of ratified and pending labor agreements are not expected to have a material adverse effect on the Corporation's results of operations. The current national bargaining agreement will end in 2000. The Corporation expects notices for negotiations to be served in November 1999.

#### TRUCKING

**OPERATIONS** -- The Corporation's other major line of business is truck transportation. Overnite Transportation Company (Overnite or OTC), a major interstate trucking company specializing in less-than-truckload (LTL) shipments, serves all 50 states and portions of Canada and Mexico through 165 service centers located throughout the United States. Overnite transports a variety of products including machinery, tobacco, textiles, plastics, electronics and paper products. Overnite experiences intense service and price competition from both regional and national motor carriers.

**EMPLOYEES** -- As the nation's largest predominantly non-union single operating trucking company, Overnite is periodically targeted by major labor organization efforts instituted by the International Brotherhood of Teamsters (Teamsters) at many of its service centers. Since year-end 1994, OTC has received 89 petitions for union elections at 66 of its 165 service centers. Twenty-one service centers, representing approximately 14% of Overnite's nationwide workforce, voted for union representation, and the Teamsters have been certified and recognized as the bargaining representative for such employees. Elections affecting approximately 400 additional employees are unresolved, and there are no elections currently scheduled. To date, Overnite has not entered into any collective bargaining agreements with the Teamsters; however, OTC is engaged in collective bargaining negotiations over union contract demands at the 21 represented locations.

**OPERATIONAL INITIATIVES** -- During 1998, 1997 and 1996, Overnite benefited from several initiatives aimed at better matching its operations to the current trucking industry environment. These actions included workforce reductions, service center consolidations, centralization of the linehaul management process and pricing initiatives targeting Overnite's lowest margin customers. OTC has also benefited from growth in its customer base generated by continuing improvements in its service levels.

**ATTEMPTED SALE OF OVERNITE** -- In May 1998, the Corporation's Board of Directors approved a formal plan to divest UPC's investment in Overnite through an initial public offering (IPO). UPC recorded a \$262 million after-tax loss from discontinued operations in the second quarter of 1998 to provide for the expected loss from the sale of Overnite. During the fourth quarter of 1998, it became apparent that because of continued weakness in the IPO market, a successful divestiture of OTC within the one year time limit prescribed by generally accepted accounting principles (GAAP) was no longer reasonably assured. As a result, in the fourth quarter of 1998, the Corporation reclassified Overnite's results to continuing operations and reversed the \$262 million loss from discontinued operations. Overnite's operating results have been reclassified to continuing operations for all periods. At December 31, 1998, Overnite had assets of \$823 million, liabilities of \$250 million, and for the year ended December 31, 1998 had revenues of \$1,034 million and an operating loss of \$508 million which included the one-time charge for the revaluation of goodwill which generated a loss of \$547 million both pre- and after-tax.

GOODWILL REVALUATION -- During the fourth quarter of 1998, the Corporation changed its method of measuring impairment of enterprise level goodwill from an undiscounted cash flow method to a fair value method based on discounted cash flows. The Corporation believes that a discounted cash flow approach is preferable since it provides a more current and realistic valuation than the undiscounted method and more closely matches Overnite's fair value. In connection with the change in accounting policy with respect to measurement of goodwill impairment described above, \$547 million of goodwill related to the acquisition of Overnite was written off during the fourth quarter of 1998. GAAP precludes the recognition of tax benefits associated with goodwill charges to income. Should the Corporation sell Overnite in the future, a tax benefit associated with the goodwill write-down may be recognized.

The following tables detail reportable financial information for each of the Corporation's segments:

Millions of Dollars	Rail	Trucking	Other/[a]/	Consol.
<b>1998</b>				
Net sales and revenues from external customers/[b]/.....	\$ 9,368	\$ 1,034	\$ 151	\$10,553
Depreciation and amortization/[c]/.....	1,003	607	7	1,617
Operating income (loss)/[c]/.....	433	(508)	(96)	(171)
Interest income.....	20	13	(5)	28
Interest expense.....	603	1	110	714
Income tax (benefit) expense.....	(11)	24	(76)	(63)
Earnings of non-consolidated affiliates/[d]/...	52	--	--	52
Net income (loss).....	27	(522)	(138)	(633)
Investments in non-consolidated affiliates/[d]/...	520	--	--	520
Segment assets.....	28,357	823	194	29,374
Expenditures for property.....	2,044	59	8	2,111

Millions of Dollars	Rail	Trucking	Other/[a]/	Consol.
<b>1997</b>				
Net sales and revenues from external customers/[b]/.....	\$ 9,981	\$ 946	\$ 152	\$11,079
Depreciation and amortization/[c]/.....	972	62	9	1,043
Operating income (loss)/[c]/.....	1,253	10	(119)	1,144
Interest income.....	15	11	(9)	17
Interest expense.....	473	2	130	605
Income tax (benefit) expense.....	332	16	(104)	244
Earnings of non-consolidated affiliates/[d]/...	41	--	--	41
Net income (loss).....	620	4	(192)	432
Investments in non-consolidated affiliates/[d]/...	443	--	--	443
Segment assets.....	27,343	1,351	166	28,860
Expenditures for property.....	2,035	40	26	2,101

Millions of Dollars	Rail	Trucking	Other/[a, /e]/	Consol.
<b>1996</b>				
Net sales and revenues from external customers/[b]/.....	\$ 7,680	\$ 961	\$ 145	\$ 8,786
Depreciation and amortization/[c]/.....	686	65	11	762
Operating income (loss)/[c]/.....	1,602	(67)	(103)	1,432
Interest income.....	14	9	27	50
Interest expense.....	323	2	176	501
Income tax (benefit) expense.....	477	(14)	(83)	380
Earnings of non-consolidated affiliates/[d]/...	52	--	--	52
Net income (loss).....	940	(43)	7	904
Investments in non-consolidated affiliates/[d]/...	387	--	--	387
Segment assets.....	26,344	1,358	288	27,990
Expenditures for property.....	1,339	10	11	1,360

[a] UPC's other segments included corporate holding company operations; Skyway Freight Systems, Inc., a provider of contract logistics and supply chain management services; Union Pacific Technologies, a provider of transportation-related technologies; and Wasatch Insurance Limited, a captive insurance company.

[b] The Corporation does not have significant intercompany sales activities.



[c] Depreciation and amortization included the one-time revaluation of Overnite's goodwill of \$547 million in 1998 and goodwill amortization at Overnite of \$15 million in 1998 and \$20 million in 1997 and 1996.

[d] The Railroad has equity interest in several railroad-related and other businesses.

[e] Included \$171 million of net income from UPC's discontinued oil and gas operations (see Note 3). Excluding discontinued operations, the net loss from other operations would have been \$164 million.

RISK FACTORS -- The Corporation's future results may be affected by changes in the economic environment, fluctuations in fuel prices and external factors such as weather. Several of the commodities transported by both Overnite and the Railroad come from industries with cyclical business operations. As a result, prolonged negative changes in U.S. and global economic conditions can have an adverse effect on the Corporation's operating results. Operating results at the Railroad and Overnite can also be affected adversely by increases in diesel fuel costs, to the extent that such costs are not recovered through higher revenues and improved fuel conservation or mitigated by hedging activity. In addition, rail operations are much more susceptible to prolonged interruption due to weather or derailment as operations continue to recover from the effects of system congestion that began late in 1997. The Corporation's future results are dependent on the continued success of its service recovery efforts and regaining its customers who switched to alternative transportation arrangements during the service crisis.

2. ACQUISITIONS

SOUTHERN PACIFIC -- UPC consummated the acquisition of Southern Pacific in September 1996. SP was acquired for \$4.1 billion (60% of the outstanding Southern Pacific common shares were converted into UPC common stock, and the remaining 40% of the outstanding shares were acquired for cash). UPC initially funded the cash portion of the acquisition with credit facility borrowings, all of which have been subsequently refinanced with other borrowings. The acquisition of Southern Pacific has been accounted for using the purchase method and was fully consolidated into UPC results beginning October 1996.

Merger Consolidation Activities -- In connection with the acquisition and continuing integration of UPRR and Southern Pacific's rail operations, UPC is in the process of eliminating 5,200 duplicate positions, which are primarily employees involved in activities other than train, engine and yard activities. In addition, UPC is relocating 4,700 positions, merging or disposing of redundant facilities, and disposing of certain rail lines. The Corporation is also canceling uneconomical and duplicative SP contracts.

To date UPC has severed 2,400 employees and relocated 3,800 due to merger implementation activities. UPC recognized a \$958 million pre-tax liability in the SP purchase price allocation for costs associated with SP's portion of these activities. In addition, the Railroad expects to incur \$160 million in pre-tax acquisition-related costs for severing or relocating UPRR employees, disposing of certain UPRR facilities, and training and equipment upgrading over the merger implementation period. Earnings for 1998 and 1997 included \$68 million pre-tax or \$42 million after-tax, and \$97 million pre-tax and \$60 million after-tax, respectively, for acquisition-related costs for UPRR consolidation activities.

The components of the merger liability as of December 31, 1998 were as follows:

Millions Of Dollars	Original Reserve	Cumulative Activity	Current Reserve
Labor protection related to legislated and contractual obligations.....	\$361	\$361	\$ --
Severance costs.....	343	253	90
Contract cancellation fees and facility and line closure costs....	145	121	24
Relocation costs.....	109	79	30
Total.....	\$958	\$814	\$144

MERGER LIABILITIES -- Merger liability activity reflected cash payments for merger consolidation activities and reclassification of contractual obligations from merger liabilities to contractual liabilities. In addition, where merger implementation has varied from the original merger plan, the Corporation has adjusted the merger liability and the fair value allocation of SP's purchase price to fixed assets to eliminate the portion of the merger liability that is no longer required. Where the merger implementation has caused the Corporation to incur more costs than were envisioned in the original merger plan, such costs are charged to expense in the period incurred. The Corporation expects that the remaining merger payments will be made over the course of the next three years as labor negotiations are completed and implemented, and related merger consolidation activities are finalized.

PRO FORMA RESULTS -- The pro forma results presented below have been prepared to reflect the consummation of the Southern Pacific acquisition as if such events occurred as of January 1, 1996. These results do not reflect synergies expected to result from the integration of UPRR's and Southern Pacific's rail operations, and accordingly, do not account for any potential increase in revenue or operating income, estimated cost savings, or one-time costs associated with the elimination of UPC's duplicate facilities and relocation or severance payments

to UPC employees. The effects of the foregoing could be substantial. This unaudited pro forma information is not necessarily indicative of the results of operations that might have occurred had the Southern Pacific acquisition actually occurred on the date indicated, or of future results of operations of the resulting entity.

-----  
 Millions of Dollars, Except Per Share Amounts Pro Forma 1996  
 -----

Operating Revenues.....	\$11,219
Operating Income.....	1,606
Net Income.....	664
EPS Basic.....	2.73
EPS Diluted.....	2.71

-----

MEXICAN RAILWAY CONCESSION - During 1997 the Corporation's rail subsidiary, UPRR, and a consortium of partners were granted a 50-year concession to operate the Pacific-North and Chihuahua Pacific lines in Mexico and a 25% stake in the Mexico City Terminal Company at a price of \$525 million. The Railroad holds a 13% ownership share and has accounted for its interest on the equity method. The consortium assumed operational control of both lines in 1998. In January 1999, the Corporation signed a letter of intent to acquire an additional 13% ownership interest.

### 3. DIVESTITURES

SKYWAY - In November 1998, the Corporation completed the sale of Skyway Freight Systems, Inc. (Skyway), a wholly-owned subsidiary. Skyway provides contract logistics and supply chain management services. The proceeds were used to repay outstanding debt. The sale of Skyway generated a net, after-tax loss of \$50 million, of which \$40 million was recognized in the fourth quarter of 1997.

RESOURCES - In July 1995, the Corporation's Board of Directors approved a formal plan to divest of UPC's natural resources business, Union Pacific Resources Group Inc. (Resources), through an IPO by Resources, followed by a pro-rata distribution of the Resources shares owned by the Corporation to its stockholders (the Spin-Off). The IPO of 42.5 million Resources shares at \$21.00 per share was completed in October 1995, and in September 1996, the Corporation's Board of Directors declared a special dividend consisting of the shares of Resources common stock owned by UPC. Resources' results have been reported as discontinued operations in the Corporation's financial statements for 1996.

### 4. FINANCIAL INSTRUMENTS

#### RISK MANAGEMENT

STRATEGY AND RISK - The Corporation and its subsidiaries use derivative financial instruments in limited instances and for other than trading purposes to manage risk as it relates to fuel prices and interest rates. Where the Corporation has fixed interest rates or fuel prices through the use of swaps, futures or forward contracts, the Corporation has mitigated the downside risk of adverse price and rate movements; however, it has also limited future gains from favorable movements.

MARKET AND CREDIT RISK - The Corporation addresses market risk related to these instruments by selecting instruments whose value fluctuations highly correlate with the underlying item being hedged. Credit risk related to derivative financial instruments, which is minimal, is managed by requiring high credit standards for counterparties and periodic settlements. The total risk associated with the Corporation's counterparties was \$41 million at December 31, 1998. The Corporation has not been required to provide collateral; however, UPC has received collateral relating to its hedging activity where the concentration of credit risk was substantial.

DETERMINATION OF FAIR VALUE - The fair market values of the Corporation's derivative financial instrument positions at December 31, 1998 and 1997, described below, were determined based on current fair market values as quoted by recognized dealers, or developed based on the present value of expected future cash flows discounted at the applicable U.S. treasury rate and swap spread.

#### INTEREST RATES

STRATEGY - The Corporation controls its overall risk of fluctuations in interest rates by managing the proportion of fixed and floating rate debt instruments within its debt portfolio over a given period. Derivatives are used as one of the tools to obtain the targeted mix. The mix of fixed and floating rate debt is largely managed through the issuance of targeted amounts of such debt as maturities occur or as incremental borrowings are required. The Corporation also obtains additional flexibility in managing interest costs and the interest rate mix within its debt portfolio by issuing callable fixed rate debt securities.

FINANCIAL IMPACT - At December 31, 1998, the Corporation had outstanding interest rate swaps on \$150 million of notional principal amount of debt (2% of the total debt portfolio) with a gross fair market value asset

position of \$41 million and a gross fair market value liability position of \$5 million. These contracts mature over the next 1 to 2 years. At December 31, 1997, the Corporation had outstanding interest rate swaps on \$193 million of notional principal amount of debt (2% of the total debt portfolio) with a gross fair market value asset position of \$61 million and a gross fair market value liability position of \$16 million. Interest rate hedging activity increased interest expense by \$4 million in 1998, \$3 million in 1997 and had no significant effect in 1996, raising the weighted-average borrowing rate by no more than 10 basis points in any year.

#### FUEL

STRATEGY - Over the past three years, fuel costs have been a significant portion of the Corporation's total operating expenses. As a result of the significance of fuel costs and the historical volatility of fuel prices, the Corporation's transportation subsidiaries periodically use swaps, futures and forward contracts to mitigate the impact of fuel price volatility. The intent of this program is to protect the Corporation's operating margins and overall profitability from adverse fuel price changes. However, the use of these contracts also limits the benefit of favorable fuel price changes.

FINANCIAL IMPACT - At December 31, 1998, the Railroad and Overnite had hedged 64% and 41% of their forecasted 1999 fuel consumption at a price of \$0.41 per gallon and \$0.45 per gallon, respectively. At December 31, 1997, the Railroad and Overnite had hedged 42% and 34% of their forecasted 1998 fuel consumption, respectively. In addition, at year-end 1998, the Railroad had outstanding swap agreements covering its fuel purchases in 1999 of \$343 million, with gross and net liability positions of \$49 million. At year-end 1997, the Railroad had outstanding swap agreements covering its fuel purchases in 1998 of \$298 million, with gross and net liability positions of \$13 million. Fuel hedging increased the Railroad's 1998 fuel costs by \$87 million, had no significant effect on 1997 fuel costs, and lowered 1996 fuel costs by \$34 million. At year-end 1998, Overnite had outstanding swap agreements of \$10 million with gross and net liability positions of \$2 million. At year-end 1997, Overnite had outstanding swap agreements of \$10 million, with gross and net liability positions of \$1 million. Fuel hedging increased 1998 fuel costs by \$3 million and had no significant effect on fuel costs for Overnite for 1997 and 1996.

#### FAIR VALUE OF DEBT INSTRUMENTS

The fair value of the Corporation's long-and short-term debt has been estimated using quoted market prices or current borrowing rates. At December 31, 1998, the fair value of total debt exceeded the carrying value by approximately 4% of the Corporation's total debt portfolio. Approximately \$1.5 billion of fixed rate debt securities contain call provisions that allow the Corporation to retire the debt instruments prior to final maturity subject, in certain cases, to the payment of premiums.

#### SALE OF RECEIVABLES

The Railroad has sold, on a revolving basis, an undivided percentage ownership interest in a designated pool of accounts receivable through a bankruptcy remote subsidiary (the Subsidiary) to third parties. The Subsidiary is collateralized by a \$75 million note from UPRR. The amount of receivables sold fluctuates based upon the availability of the designated pool of receivables and is directly affected by changing business volumes and credit risks. At December 31, 1998 and 1997, accounts receivable are presented net of the \$580 million and \$650 million of receivables sold, respectively.

#### 5. PROPERTIES

Major property accounts were as follows:

Millions of Dollars	1998	1997
Railroad:		
Road and other.....	\$24,789	\$23,610
Equipment.....	7,545	7,084
Total Railroad.....	32,334	30,694
Trucking.....	785	750
Other.....	26	70
Total.....	\$33,145	\$31,514

Accumulated depreciation accounts were as follows:

Millions of Dollars	1998	1997
Railroad:		
Road and other.....	\$ 3,303	\$ 2,938
Equipment.....	2,568	2,270
Total Railroad.....	5,871	5,208
Trucking.....	325	297
Other.....	10	32
Total.....	\$ 6,206	\$ 5,537

6. INCOME TAXES

Components of income tax expense, excluding discontinued operations, were as follows:

Millions of Dollars	1998	1997	1996
Current:			
Federal.....	\$ 13	\$ (50)	\$ 200
State.....	(2)	(6)	14
Total current.....	11	(56)	214
Deferred:			
Federal.....	261	270	149
State.....	15	30	17
Benefit of net operating loss.....	(350)		
Total deferred.....	(74)	300	166
Total.....	\$ (63)	\$ 244	\$ 380

Deferred tax liabilities (assets) comprise the following:

Millions of Dollars	1998	1997
Net current deferred tax asset.....	\$ (244)	\$ (129)
Excess tax over book depreciation.....	7,314	7,050
State taxes net.....	494	504
SP merger reserves.....	(50)	(235)
Long-term liabilities.....	(362)	(208)
Retirement benefits.....	(327)	(307)
Alternative minimum tax.....	(192)	(201)
Net operating loss.....	(754)	(528)
Other.....	185	177
Net long-term deferred tax liability.....	6,308	6,252
Net deferred tax liability.....	\$ 6,064	\$ 6,123

The Corporation has a deferred tax asset reflecting the benefits of \$2,552 million in net operating loss carryforwards (NOLs), which expire as follows:

Millions of Dollars	
Expiring December 31:	
2002.....	\$ 455
2003.....	262
2004.....	134
2005.....	136
2006.....	226
2007-2016.....	1,339
Total.....	\$2,552

The Internal Revenue Code limits a corporation's ability to utilize its NOLs with certain changes in the ownership of a corporation's stock. The Corporation does not expect that those limitations will have an adverse impact on its ability to utilize the NOLs. The Corporation has analyzed its NOLs and other deferred tax assets and believes a valuation allowance is not necessary.

A reconciliation between statutory and effective tax rates of continuing operations is as follows:

	1998	1997	1996
Statutory tax rate.....	(35.0)%	35.0%	35.0%
State taxes net.....	(1.6)	2.3	1.8
Goodwill amortization and impairment [Note 1]....	28.4	1.3	0.7
Dividend exclusion.....	(1.7)	(1.6)	(1.4)
Tax settlement.....		(0.9)	(2.3)
Other.....	0.8		0.3
Effective tax rate.....	(9.1)%	36.1%	34.1%

All material IRS deficiencies prior to 1986 have been settled. The Corporation and the IRS have settled all issues through 1982, including Tax Court cases for years through 1979. In addition, the Corporation has reached a partial

settlement with the IRS Appeals for 1983 through 1985; the remaining issues will be resolved as part of the refund claims filed for those years. The Corporation is negotiating with the Appeals Office concerning 1986 through 1989. The IRS is examining the Corporation's returns for 1990 through 1994. The Corporation believes it has adequately provided for Federal and state income taxes.

Net payments (refunds) of income taxes were \$(103) million in 1998, \$64 million in 1997 and \$108 million in 1996.

## 7. DEBT

Total debt is summarized below:

Millions of Dollars	1998	1997
Notes and debentures, 0.0% to 11.5% due through 2054.....	\$4,219	\$3,526
Capitalized leases.....	1,434	1,251
Medium-term notes, 6.3% to 10.0% due through 2020.....	985	403
Equipment obligations, 6.0% to 10.3% due through 2019.....	858	910
Term floating rate debt, 5.5% to 6.2% due through 2012.....	644	392
Credit facility borrowings, average of 5.7% in 1998.....	200	-
Mortgage bonds, 4.3% to 5.0% due through 2030.....	175	176
Tax-exempt financings, 4.2% to 5.7% due through 2026.....	168	168
Commercial paper and bid notes, average of 5.9% in 1998 and 6.1% in 1997.....	56	1,743
Unamortized discount.....	(47)	(51)
Total debt.....	8,692	8,518
Less current portion.....	(181)	(233)
Total long-term debt.....	\$8,511	\$8,285

**DEBT MATURITIES** - For the years 1999 through 2003, debt maturities are \$181 million, \$736 million, \$1,265 million, \$604 million and \$674 million, respectively. Interest payments approximate gross interest expense.

**MORTGAGED PROPERTIES** - Approximately 30% of all rail equipment and other Railroad properties secures outstanding equipment obligations and mortgage bonds.

**CREDIT FACILITIES** - The Corporation has \$4 billion of credit facilities with various banks designated for general corporate purposes, of which \$3.8 billion is unused at December 31, 1998; \$1.2 billion of these facilities expires in 1999, while the remaining \$2.8 billion expires in 2001. Commitment fees and interest rates payable under these facilities are similar to fees and rates available to comparably rated investment-grade corporate borrowers. To the extent the Corporation has long-term credit facilities available, commercial paper borrowings and other current maturities of long-term debt of \$537 million, which are due within one year, have been reclassified as long-term debt maturing in the year 2001. This reclassification reflects the Corporation's intent to refinance these short-term borrowings and current maturities of long-term debt on a long-term basis through the issuance of additional commercial paper or new long-term financings, or by using currently available long-term credit facilities if alternative financing is not available.

### SIGNIFICANT NEW BORROWINGS

**Convertible Preferred Securities** - On April 1, 1998, Union Pacific Capital Trust (the Trust), a statutory business trust sponsored and wholly-owned by the Corporation, issued \$1.5 billion aggregate liquidation amount of 61.4% Convertible Preferred Securities (the Preferred Securities). Each of the Preferred Securities has a stated liquidation amount of \$50 and is convertible, at the option of the holder, into shares of UPC's common stock, par value \$2.50 per share, at the rate of 0.7257 shares of UPC common stock for each of the Preferred Securities, equivalent to a conversion price of \$68.90 per share of UPC common stock, subject to adjustment under certain circumstances. The Preferred Securities accrue and pay cash distributions quarterly in arrears at the annual rate of 61.4%. The Corporation owns all of the common securities of the Trust.

The proceeds from the sale of the Preferred Securities and the common securities of the Trust were invested by the Trust in \$1.5 billion aggregate principal amount of the Corporation's Convertible Junior Subordinated Debentures due 2028 (the Debentures). The Debentures represent the sole assets of the Trust. The Debentures accrue and pay interest quarterly in arrears at the annual rate of 61.4%. The Debentures mature on April 1, 2028, unless previously redeemed or repurchased in accordance with the terms of the indenture (the Indenture). The proceeds from the issuance of the Debentures were used by the Corporation for repayment of corporate borrowings.

The Corporation has guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities (the Guarantee). Considered together, the Corporation's obligations under the Debentures, the Indenture, the Guarantee and the Amended and Restated Declaration of Trust governing the Trust provide a full and unconditional guarantee by the Corporation of the Trust's obligations under the Preferred Securities.

For financial reporting purposes, the Corporation has recorded distributions payable on the Preferred Securities as an interest charge to earnings in the statement of consolidated income.

Medium-Term Notes - The Corporation designated the \$1,225 million balance of its shelf registration statement as potentially available for a medium-term note program in the fourth quarter of 1998. By December 31, 1998, the Corporation had issued \$598 million under the medium-term note program and intends to continue to issue debt from time to time, either pursuant to the medium-term note program or in underwritten transactions. The proceeds of such issuances will be used for general corporate purposes, including repayment of maturing debt or commercial paper borrowings. At December 31, 1998, the Corporation had \$627 million remaining for issuance under its shelf registration.

DIVIDEND RESTRICTIONS - The Corporation is subject to certain restrictions related to the payment of cash dividends. The amount of retained earnings available for dividends under the most restrictive test was \$1.9 billion at December 31, 1998.

#### 8. LEASES

The Corporation leases certain locomotives, freight cars, trailers and other property. Future minimum lease payments for capital and operating leases with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 1998 were as follows:

Millions of Dollars	Operating Leases	Capital Leases
1999.....	\$ 397	\$ 213
2000.....	364	218
2001.....	317	221
2002.....	244	208
2003.....	209	186
Later years.....	1,909	1,225
Total minimum payments.....	\$3,440	2,271
Amount representing interest.....		(837)
Present value of minimum lease payments..		\$1,434

Rent expense for operating leases with terms exceeding one month was \$672 million in 1998, \$590 million in 1997 and \$513 million in 1996. Contingent rentals and sub-rentals are not significant.

#### 9. RETIREMENT PLANS

BENEFIT SUMMARY - The Corporation provides defined benefit retirement income to eligible non-union employees through qualified and non-qualified (supplemental) pension plans. In addition, all non-union and certain of the Corporation's union employees participate in defined contribution medical and life insurance programs for retirees. All Railroad employees are covered by the Railroad Retirement System (the System).

FUNDING AND BENEFIT PAYMENTS - Qualified and non-qualified pension benefits are based on years of service and the highest compensation during the latest years of employment. The qualified plans are funded based on the Projected Unit Credit actuarial funding method and are funded at not less than the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. The Corporation has settled a portion of the non-qualified unfunded supplemental plan's accumulated benefit obligation by purchasing annuities. The Corporation also provides medical and life insurance benefits on a cost sharing basis for qualifying employees. These costs are funded as incurred. In addition, contributions made to the System are expensed as incurred and amounted to approximately \$411 million in 1998, \$392 million in 1997 and \$275 million in 1996.

The following illustrates the change in the Corporation's projected benefit obligation for 1998 and 1997:

Millions of Dollars	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
Net benefit obligation at beginning of year.....	\$1,849	\$1,590	\$ 425	\$ 417
Service cost.....	40	33	8	8
Interest cost.....	127	122	29	30
Plan amendments.....	2	104	(2)	
Actuarial (gain) loss.....	39	94	12	(4)
Gross benefits paid.....	(102)	(94)	(28)	(26)
Net benefit obligation at end of year.....	\$1,955	\$1,849	\$ 444	\$ 425



Changes in the Corporation's benefit plan assets are summarized as follows for 1998 and 1997:

Millions of Dollars	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
Fair value of plan assets at beginning of year.....	\$1,858	\$1,634	\$ -	\$ -
Actual return on plan assets.....	331	263	-	-
Employer contributions.....	13	55	28	26
Gross benefits paid.....	(102)	(94)	(28)	(26)
Fair value of plan assets at end of year.....	\$2,100	\$1,858	\$ -	\$ -

The components of funded status of the benefit plans for 1998 and 1997 were as follows:

Millions of Dollars	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
Funded status at end of year.....	\$ 145	\$ 8	\$(444)	\$(425)
Unrecognized net actuarial gain.....	(554)	(419)	(44)	(55)
Unrecognized prior service cost (credit).....	107	117	(26)	(32)
Unrecognized net transition obligation.....	(16)	(14)	-	-
Net liability recognized at end of year.....	\$(318)	\$(308)	\$(514)	\$(512)

Amounts recognized for the benefit plan liabilities in the statement of consolidated financial position for 1998 and 1997 consisted of:

Millions of Dollars	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
Prepaid benefit cost.....	\$ 1	\$ 1	\$ -	\$ -
Accrued benefit cost.....	(319)	(309)	(514)	(512)
Additional minimum liability.....	(15)	(33)	-	-
Intangible asset.....	15	33	-	-
Net liability recognized at end of year.....	\$(318)	\$(308)	\$(514)	\$(512)

The components of the Corporation's net periodic pension costs for the years ended December 31, 1998, 1997 and 1996 were as follows:

Millions of Dollars	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost.....	\$ 40	\$ 33	\$ 32	\$ 8	\$ 8	\$ 8
Interest cost.....	127	122	89	29	30	22
Expected return on assets.....	(144)	(118)	(88)	-	-	-
Amortization of:						
Transition obligation.....	1	2	4	-	-	-
Prior service cost (credit).....	12	9	7	(7)	(7)	(7)
Actuarial gain.....	(10)	(11)	(5)	(3)	(3)	(2)

Total net periodic benefit cost.....	\$ 26	\$ 37	\$ 39	\$ 27	\$ 28	\$ 21
--------------------------------------	-------	-------	-------	-------	-------	-------

As of year-end 1998 and 1997, approximately 31% and 32%, respectively, of the funded plans' assets were held in fixed-income and short-term securities, with the remainder in equity securities.

The weighted-average actuarial assumptions for the years ended December 31, 1998, 1997 and 1996 were as follows:

Percentages	1998	Pension Benefits		1998	Other Postretirement Benefits	
		1997	1996		1997	1996
Discount rate.....	6.75%	7.0%	7.5%	6.75%	7.0%	7.5%
Expected return on plan assets.....	9.0	9.0	8.0	N/A	N/A	N/A
Rate of compensation increase.....	3.75	4.0	4.5	3.75	4.0	4.5
	to	to	to	to	to	to
	4.75	5.0	5.5	4.75	5.0	5.5
Health care cost trend:						
Current.....	N/A	N/A	N/A	9.0	9.0	9.5
Level in 2005.....	N/A	N/A	N/A	4.5	4.5	5.0

Assumed health care cost trend rates have a significant effect on the amount reported for health care plans. A one percentage point change in the assumed health care cost trend rates would have the following effects:

Millions of Dollars	One % pt. increase	One % pt. decrease
Effect on total service and interest cost components.....	\$ 3	\$ (3)
Effect on postretirement benefit obligation..	32	(27)

10. STOCK OPTION PLANS, RETENTION STOCK PLANS AND OTHER CAPITAL STOCK

OPTIONS - Pursuant to the Corporation's stock option and retention stock plans for officers and key employees, 4,493,578, 8,997,375 and 8,586,773 common shares were available for grant as retention stock or options at December 31, 1998, 1997 and 1996, respectively. Options under the plans are granted at 100% of market value at the grant date and are exercisable for a period of 10 years from the grant date. Options generally become exercisable no earlier than one year after grant. Shares under option at the date of the Resources Spin-Off that occurred in 1996 were increased and revalued to reflect the market value change resulting from the Spin-Off.

RETENTION AND RESTRICTED STOCK - The plans also provide for awarding retention shares of common stock to eligible employees, generally subject to forfeiture if employment terminates during the prescribed restricted period or, in some cases, if certain prescribed stock price or other financial criteria are not met, and restricted stock to directors subject to forfeiture if certain service requirements are not met. In 1996, the year of the Resources Spin-Off, 472,818 additional retention and restricted shares were issued to reflect the market value change resulting from the Spin-Off. During 1996, 1,534,786 retention and restricted shares were issued at a weighted-average fair value of \$56.78. No retention or restricted shares were issued in 1997. During 1998, 322,025 retention and restricted shares were issued at a weighted-average fair value of \$51.77. A portion of the retention shares issued in 1998 and 1996 were subject to stock price or performance targets. The cost of retention shares is amortized to expense over the vesting period. In 1998, 1997 and 1996, UPC charged \$16 million, \$24 million and \$30 million, respectively, to expense for the amortization of retention shares.

DETERMINATION OF FAIR VALUE OF OPTIONS - The fair value of each stock option granted is estimated for the determination of pro forma expense using a Black-Scholes option-pricing model. The expense impact of the option grant is reflected in pro forma results, included in the table below, over the options' vesting period and is determined as of the date of grant. During 1996, 5,687,448 options were granted at a weighted-average option price of \$56.35. The pro forma expense determination for options granted in 1996 was valued using the following weighted-average assumptions: dividend yield of 3.0%, risk-free interest rate of 5.9%, expected option period of four years, and volatility of 21.1%. There were no options granted during 1997. During 1998, 15,653,880 options were granted at a weighted-average option price of \$53.10. The pro forma expense determination for options granted in 1998 was based on the following weighted-average assumptions: dividend yield of 1.8%, risk-free interest rate of 4.5%, expected option period of four years, and volatility of 24.2%.

Pro forma net income (loss) and EPS for 1998, 1997 and 1996 including compensation expense for options that vested in each year were as follows:

	1998/[a]/	1997	1996
Net Income (Loss) (millions).....	\$ (684)	\$ 418	\$ 901
EPS Basic.....	\$(2.78)	\$1.70	\$ 4.16
EPS Diluted.....	\$(2.78)	\$1.69	\$ 4.13

Changes in common stock options outstanding were as follows:

	Shares Under Option	Weighted-Average Option Price Per Share
Balance December 31, 1995.....	7,091,452	\$ 49.58
Granted.....	5,687,448	56.35
Exercised.....	(2,081,752)	39.39
Expired/Surrendered.....	(326,082)	51.43
Spin-Off Conversion [Note 3].....	2,833,601	(16.51)
Balance December 31, 1996.....	13,204,667	43.42
Granted.....	-	-
Exercised.....	(1,620,648)	32.85
Expired/Surrendered.....	(247,676)	55.61
Balance December 31, 1997.....	11,336,343	44.65
GRANTED/[a]/.....	15,653,880	53.10
EXERCISED.....	(315,528)	27.52
EXPIRED/SURRENDERED.....	(175,116)	56.13
BALANCE DECEMBER 31, 1998.....	26,499,579	49.77

[a] During 1998 the Corporation implemented a broad-based option program that granted each employee 200 options at \$55.00 per share. This program resulted in 11,236,400 new options in 1998 and generated an after-tax pro forma compensation expense of \$33 million in 1998. The conversion of these options will be effected with treasury shares and are not issued under the stock option plan for officers and key employees.

Stock options outstanding at December 31, 1998 were as follows:

	Number of Options	Weighted- Average Years to Expiration	Weighted- Average Option Price
Range of Option Prices:			
\$6.02 to \$42.25.....	4,412,832	5	\$31.75
\$42.87 to \$48.19.....	5,314,477	9	46.45
\$55.00.....	11,236,400	9	55.00
\$56.50 to \$59.82.....	5,535,870	8	56.72
BALANCE DECEMBER 31, 1998.....	26,499,579	8	49.77

Stock options exercisable at December 31, 1998 were as follows:

	Number of Options	Weighted- Average Years to Expiration	Weighted- Average Option Price
Range of Option Prices:			
\$6.02 to \$31.60.....	3,392,094	5	\$30.21
\$32.26 to \$43.75.....	1,928,802	4	39.94
\$45.69 to \$59.82.....	2,070,603	8	54.59
Balance December 31, 1998.....	7,391,499	6	39.5

#### 11. EARNINGS PER SHARE

The following table provides a reconciliation between basic and diluted earnings per share for the years ended:

Millions, Except Per Share Amounts	1998	1997	1996
Income Statement Data:			
Income (loss) from continuing operations.....	\$ (633)	\$ 432	\$ 733
Income (loss) available to common stockholders from continuing operations.....	(633)	432	733
Income from discontinued operations.....	-	-	171
Net income (loss) available to common stockholders.....	(633)	432	904
Weighted-Average Number of Shares Outstanding:			
Basic.....	246.0	245.7	216.7
Dilutive effect of common stock equivalents/[a]/.....	-	2.4	1.3
Diluted.....	246.0	248.1	218.0
Earnings per Share:			
Basic:			
Income (loss) from continuing operations.....	\$ (2.57)	\$ 1.76	\$ 3.38
Income from discontinued operations.....			0.79
Net income (loss).....	\$ (2.57)	\$ 1.76	\$ 4.17
Diluted:[a]/			
Income (loss) from continuing operations.....	\$ (2.57)	\$ 1.74	\$ 3.36
Income from discontinued operations.....			0.78
Net income (loss).....	\$ (2.57)	\$ 1.74	\$ 4.14

[a] Excluded the effect of anti-dilutive common stock equivalents related to options and Convertible Preferred Securities (see Note 7), which were 1.4 million and 16.3 million, respectively, at December 31, 1998.

#### 12. COMMITMENTS AND CONTINGENCIES

There are various claims and lawsuits pending against the Corporation and certain of its subsidiaries. The Corporation is also subject to Federal, state and local environmental laws and regulations, pursuant to which it is currently participating in the investigation and remediation of numerous sites. In addition, the Corporation and its subsidiaries also periodically enter into

financial and other commitments in connection with their businesses, and have retained certain contingent liabilities upon the disposition of formerly-owned operations.

It is not possible at this time for the Corporation to determine fully the effect of all unasserted claims on its consolidated financial condition, results of operations or liquidity; however, to the extent possible, where unasserted claims can be estimated and where such claims are considered probable, the Corporation has recorded a liability. The Corporation does not expect that any known lawsuits, claims, environmental costs, commitments or guarantees will have a material adverse effect on its consolidated financial condition. Certain potentially significant contingencies relating to the Corporation's and its subsidiaries' businesses are detailed below:

**CUSTOMER CLAIMS** - Certain customers have submitted claims for damages related to shipments delayed by the Railroad as a result of congestion problems, and certain customers have filed lawsuits seeking relief related to such delays. The nature of the damages sought by claimants includes, but is not limited to, contractual liquidated damages, freight loss or damages, alternative transportation charges, additional production costs, lost business and lost profits. In addition, some customers have asserted that they have the right to cancel contracts as a result of alleged material breaches of such contracts by the Railroad. The Corporation has accrued \$456 million for these claims (\$370 million in 1998 and \$86 million in 1997).

**ENVIRONMENTAL ISSUES** - For environmental sites where remediation costs can be reasonably determined, and where such remediation is probable, the Corporation has recorded a liability. At December 31, 1998, the Corporation had accrued \$207 million for estimated future environmental costs and believes it is reasonably possible that actual environmental costs could be lower than the recorded reserve or as much as 25% higher.

**SHAREHOLDER LAWSUITS** - UPC and certain of its current and former directors and officers are defendants in two purported class actions, which have been consolidated into one proceeding. The consolidated complaint alleges, among other things, that the Corporation violated the Federal securities laws by failing to disclose material facts and making materially false and misleading statements concerning the service, congestion and safety problems encountered following the Corporation's acquisition of Southern Pacific in 1996. These lawsuits were filed in late 1997 in the United States District Court for the Northern District of Texas and seek to recover unspecified amounts of damages. Management believes that the plaintiffs' claims are without merit and intends to defend them vigorously. The defendants have moved to dismiss this action, and the motion has been fully briefed.

In addition to the class action litigation, a purported derivative action was filed on behalf of the Corporation and the Railroad in September 1998 in the District Court for Tarrant County, Texas, naming as defendants the then-current and certain former directors of the Corporation and the Railroad and, as nominal defendants, the Corporation and the Railroad. The derivative action alleges, among other things, that the named directors breached their fiduciary duties to the Corporation and the Railroad by approving and implementing the Southern Pacific merger without informing themselves of its impact or ensuring that adequate controls were put in place and by causing UPC and the Railroad to make misrepresentations about the Railroad's service problems to the financial markets and regulatory authorities. The Corporation's Board of Directors has established a special litigation committee consisting of three independent directors to review the plaintiff's allegations, and determine whether it is in UPC's best interest to pursue them. Pleadings have been filed seeking a stay of further proceedings in that action pending completion of the special committee's investigation. The individual defendants believe that these claims are without merit and intend to defend them vigorously.

### 13. OTHER INCOME

Other income included the following:

Millions of Dollars	1998	1997	1996
Net gain on asset dispositions.....	\$ 125	\$ 102	\$ 92
Rental income.....	55	75	38
Interest income.....	28	17	50
Interest on Resources notes receivable [Note 3].....	-	-	33
Loss on sale of Skyway.....	(18)	(65)	
Other net.....	(1)	8	(31)
Total.....	\$ 189	\$ 137	\$ 182

### 14. ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities," that will be effective in 2000. Management is determining the effect, if any, the Statement will have on the Corporation's financial statements (see Note 4 for a quantification of the fair value of the Corporation's financial instruments).

SUPPLEMENTARY INFORMATION (unaudited)

SELECTED QUARTERLY DATA

Selected unaudited quarterly data are as follows:

Millions of Dollars  
Except Per Share Amounts

1998	MAR 31	JUN 30/[a]/	SEP 30	DEC 31/[b]/
Operating Revenues.....	\$2,586	\$2,623	\$2,660	\$2,684
Operating Income (Loss).....	33	(139)	210	(275)
Income (Loss) from				
Continuing Operations.....	(62)	(154)	34	(451)
Net Income (Loss).....	(62)	(416)	34	(189)
Per Share Basic:				
Income (Loss) from				
Continuing Operations.....	(0.25)	(0.63)	0.14	(1.83)
Net Income (Loss).....	(0.25)	(1.69)	0.14	(0.77)
Per Share Diluted:				
Income (Loss) from				
Continuing Operations.....	(0.25)	(0.63)	0.14	(1.83)
Net Income (Loss).....	(0.25)	(1.69)	0.14	(0.77)
Dividends Per Share.....	0.20	0.20	0.20	0.20
Common Stock Price:				
High.....	63.75	58.25	47.75	49.50
Low.....	49.00	42.38	37.31	41.56

1997	Mar 31	Jun 30	Sep 30	Dec 31/[c]/
Operating Revenues.....	\$2,810	\$2,883	\$2,825	\$2,561
Operating Income (Loss).....	317	475	423	(71)
Income (Loss) from				
Continuing Operations.....	128	216	240	(152)
Net Income (Loss).....	128	216	240	(152)
Per Share Basic:				
Income (Loss) from				
Continuing Operations.....	0.52	0.88	0.98	(0.62)
Net Income (Loss).....	0.52	0.88	0.98	(0.62)
Per Share Diluted:				
Income (Loss) from				
Continuing Operations.....	0.52	0.87	0.96	(0.62)
Net Income (Loss).....	0.52	0.87	0.96	(0.62)
Dividends Per Share.....	0.43	0.43	0.43	0.43
Common Stock Price:				
High.....	64.00	72.00	72.97	65.44
Low.....	56.75	56.25	60.94	57.69

[a] Included a \$262 million provision for the anticipated sale of Overnite (see Note 1 to the Financial Statements).

[b] Included a \$547 million charge for the one-time write-down of Overnite goodwill and the reversal of the \$262 million provision for the potential sale of Overnite (see Note 1 to the Financial Statements).

[c] Included a \$65 million pre-tax (\$40 million after-tax or \$0.16 per diluted share) loss on planned sale of Skyway. STOCKHOLDERS AND DIVIDENDS

STOCKHOLDERS AND DIVIDENDS

The common stock of the Corporation is traded on various stock exchanges, principally the New York Stock Exchange. At January 29, 1999, there were 247,516,086 shares of outstanding common stock and approximately 53,640 common stockholders. At that date, the closing price of the common stock on the New York Stock Exchange was \$51.44. Cash dividends declared on common stock by the Corporation were \$0.80 and \$1.72 per share in 1998 and 1997. Union Pacific has paid dividends to its common stockholders during each of the past 99 years. See Note 7 to the Financial Statements for a discussion regarding restrictions relating to the payment of cash dividends.

RAIL TRANSPORTATION

Rail transportation data includes Southern Pacific statistics as if the acquisition had taken place January 1, 1996 (pro forma).

COMMODITIES

Revenue ton-miles (RTM) and commodity revenue (CR) for major commodities by percent and in total were as follows:

Percent of Total	RTM	CR	RTM	CR	RTM	CR
Automotive.....	3.1%	10.3%	3.4%	9.8%	3.2%	9.5%
Agriculture.....	14.1	14.4	15.4	14.9	17.3	15.5
Intermodal.....	14.7	16.6	15.8	17.8	15.5	17.6
Chemicals.....	11.4	16.9	12.1	17.7	12.4	17.9
Energy.....	40.1	22.0	36.1	19.7	34.2	19.3
Industrial.....	16.6	19.8	17.2	20.1	17.4	20.2
Total.....	100%	100%	100%	100%	100%	100%
Total (billions).....	432.1	\$ 9.1	451.8	\$ 9.7	482.1	\$ 9.8

CAPITAL EXPENDITURES

Millions of Dollars	1998	1997	1996
Roadway and other.....	\$ 1,538	\$ 1,534	\$ 930
Equipment.....	506	501	409
Total.....	\$ 2,044	\$ 2,035	\$ 1,339



## EQUIPMENT

	1998	1997	1996
Owned or leased at year-end:			
Locomotives.....	7,083	6,966	6,755
Freight cars:			
Covered hoppers.....	40,097	41,149	42,406
Box cars.....	23,263	24,718	22,934
Open-top hoppers.....	20,324	20,674	20,989
Gondolas.....	17,828	16,083	15,325
Other.....	18,264	17,143	19,675
Work equipment.....	9,218	10,045	11,631
Purchased or leased during the year:			
Locomotives.....	256	276	245
Freight cars.....	2,120	1,525	2,263
Average age of equipment (years):			
Locomotives.....	14.4	14.4	13.7
Freight cars.....	20.1	19.3	19.2
Bad order ratio freight cars...	4.5%	4.4%	4.1%

## TRACK

Miles	1998	1997	1996
Main line.....	27,197	27,421	27,406
Branch line.....	6,509	7,526	8,431
Yards, sidings and other main line.....	21,597	21,588	21,915
Total.....	55,303	56,535	57,752
Track miles of continuous welded rail at year-end.....	23,647	23,392	23,172
Track miles under centralized traffic-control at year-end....	15,944	15,590	15,277
Track miles of rail replaced:			
New.....	858	716	451
Used.....	341	273	362
Track miles re-ballasted.....	3,259	3,557	4,503
Ties replaced (thousands).....	2,691	3,853	2,919

## RAIL OPERATIONS

	1998	1997	1996/[a]/
Operating ratio (%).....	95.4	87.4	83.5
Carloadings (thousands).....	7,998	8,453	8,814
Average commodity revenue per car.....	\$ 1,134	\$ 1,149	\$ 1,114
Average price of diesel fuel per gallon.....	62c	71c	70c

[a] On a pro forma basis as if the SP acquisition had occurred on January 1, 1996 (see Note 2 to the Financial Statements).

## TRUCKING

## FREIGHT OPERATIONS

	1998	1997	1996
Shipments (thousands):			
Less-than-truckload.....	7,768	7,482	8,184
Truckload.....	21	24	39
Total.....	7,789	7,506	8,223
Tonnage (thousands):			
Less-than-truckload.....	3,983	3,841	4,290
Truckload.....	226	269	436
Total.....	4,209	4,110	4,726
Revenue per hundredweight.....	\$ 11.98	\$ 11.24	\$ 9.97
Operating ratio (%)/[a]/.....	94.8	96.8	104.9

[a] Excluded goodwill amortization and the \$547 million one-time goodwill revaluation charge in 1998.

## EQUIPMENT AND SERVICE CENTERS

	1998	1997	1996
Owned or leased at year-end:			
Tractors.....	4,839	4,799	5,023
Trailers.....	19,460	19,439	19,479
Straight trucks.....	77	77	77
Automobiles and service units.....	160	162	177
Service centers.....	165	164	161
Average age of equipment (years):			
Tractors.....	6.8	7.1	7.0
Trailers.....	8.4	8.7	7.7

CAPITAL EXPENDITURES

Millions of Dollars	1998	1997	1996
Revenue equipment.....	\$ 33	\$ 24	\$ 5
Other.....	26	16	5
Total.....	\$ 59	\$ 40	\$ 10

TEN-YEAR FINANCIAL SUMMARY/[a]/  
Union Pacific Corporation and Subsidiary Companies

Millions of Dollars, Except Per Share Amounts, Ratios and Employee Statistics

	1998/[b]/	1997	1996	1995	1994/[c]/	1993/[d]/	1992	1991/[e]/	1990	1989
--	-----------	------	------	------	-----------	-----------	------	-----------	------	------

FOR THE YEAR

Operating Revenues.....	\$10,553	11,079	8,786	7,486	6,492	6,002	5,773	5,687	5,739	5,453
Operating Income (Loss).....	(171)	1,144	1,432	1,242	1,145	1,015	992	139	905	913
Income (Loss)/[f].....	(633)	432	733	619	568	412	456	(123)	374	398
Net Income (Loss).....	(633)	432	904	946	546	530	728	64	618	595
Per Share Basic:										
Income (Loss)/[f].....	(2.57)	1.76	3.38	3.02	2.77	2.01	2.24	(0.61)	1.87	1.89
Net Income (Loss).....	(2.57)	1.76	4.17	4.62	2.66	2.59	3.58	0.32	3.09	2.82
Per Share Diluted:										
Income (Loss)/[f].....	(2.57)	1.74	3.36	3.01	2.76	2.00	2.24	(0.60)	1.86	1.88
Net Income (Loss).....	(2.57)	1.74	4.14	4.60	2.66	2.58	3.57	0.31	3.08	2.81
Dividends Per Share.....	0.80	1.72	1.72	1.72	1.66	1.54	1.42	1.31	1.18	1.12
Operating Cash Flow.....	565	1,600	1,657	1,454	1,079	975	842	794	904	956
Capital Investments.....	2,111	2,101	1,360	1,058	876	899	864	667	674	870
Average Employees.....	65,100	65,600	54,800	49,500	45,400	44,000	42,800	43,800	45,400	45,400
Revenues Per Employee (000).....	162.1	168.9	160.3	151.4	143.0	136.3	135.0	129.9	126.4	120.0

AT YEAR-END

Total Assets.....	\$29,374	28,860	27,990	19,500	14,543	13,797	12,901	12,272	12,063	11,567
Total Debt.....	8,692	8,518	8,027	6,364	4,479	4,105	4,035	3,966	3,982	3,975
Common Stockholders' Equity.....	7,393	8,225	8,225	6,364	5,131	4,885	4,639	4,163	4,277	3,911
Equity Per Common Share.....	29.88	33.30	33.35	30.96	24.92	23.81	22.75	20.52	21.63	19.50

SEGMENT DATA

Rail Commodity Revenue.....	\$ 9,072	9,712	7,419	6,105	5,216	4,873	4,819	4,708	4,630	4,496
Trucking Revenue.....	1,034	946	961	976	1,037	939	873	800	805	700
Rail Carloadings.....	7,998	8,453	6,632	5,568	4,991	4,619	4,458	4,304	4,158	3,975
Trucking Shipments.....	7,789	7,506	8,223	8,332	8,593	8,206	7,669	7,106	7,475	6,832
Rail Operating Ratio.....	95.4	87.4	79.1	78.1	77.9	79.1	79.0	80.4	80.8	80.6
Trucking Operating Ratio/[g].....	94.8	96.8	104.9	103.0	91.3	90.2	90.9	91.9	90.4	90.8

FINANCIAL RATIOS (%)

Debt to Capital Employed.....	49.4	50.9	49.4	50.0	46.6	45.7	46.5	48.8	48.2	50.4
Return on Equity/[h].....	(8.1)	5.3	12.4	16.5	10.9	11.1	16.5	1.5	15.1	14.2

[a] Data included the effects of the acquisitions of Southern Pacific Rail Corporation as of October 1, 1996, Chicago and North Western Transportation Company as of May 1, 1995 and Skyway Freight Systems, Inc. as of May 31, 1993, and reflects the disposition of the Corporation's natural resources segment in 1996 and waste management segment in 1995.

[b] 1998 operating loss and net loss included a one-time \$547 million pre-and after-tax charge (see Note 1 to the Financial Statements). 1998 operating income and net loss, excluding the charge, would have been \$376 million and \$86 million, respectively, with a negative return on average common stockholders' equity of (1.1)%.

[c] 1994 net income included a net after-tax loss of \$404 million from the sale of the Corporation's waste management operations. Excluding this loss, 1994 return on common stockholders' equity would have been 18.2%.

[d] 1993 net income included a net after-tax charge for the adoption of changes in accounting methods for income taxes, postretirement benefits other than pensions and revenue recognition, and a one-time charge for the deferred tax effect of the Omnibus Budget Reconciliation Act of 1993. Excluding the impact of these items, income from continuing operations would have been \$468 million (\$2.28 per basic share and \$2.27 per diluted share) with a return on common stockholders' equity of 15.7%.

[e] Net income excluding the special charges would have been \$639 million with a return on common stockholders' equity of 14.2%.

[f] Based on results from continuing operations.

[g] Excluded goodwill amortization.

[h] Based on average common stockholders' equity.

UNION PACIFIC CORPORATION

MAP OF UNITED STATES

MAP DESCRIPTION

- - - - -

Two-page light gray map of the Continental United States, western provinces of Canada, and Alaska, on a white background.

The locations of significant assets and operations are indicated on the map by operating company as follows:

A. Union Pacific Corporation

1. Corporate Headquarters in Dallas, Texas.

B. Union Pacific Railroad

1. Headquarters in Omaha, Nebraska.
2. Single and Double Track located in the states of Arizona, Arkansas, California, Colorado, Idaho, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, Wisconsin and Wyoming.
3. Triple and Quadruple Track located in the States of California, Nebraska and Wyoming.
4. Classification Yards located in the states of Arkansas, California, Idaho, Illinois, Louisiana, Missouri, Nebraska, Oregon, and Texas.
5. Major Intermodal Trailer/Container Terminals located in the states of Arizona, Arkansas, California, Colorado, Idaho, Illinois, Louisiana, Missouri, Nebraska, Nevada, Oregon, Tennessee, Texas, Utah, Washington and Wyoming.

C. Overnite Transportation

1. Headquarters in Richmond, Virginia
2. Key Terminals spread throughout the eastern half of the Continental United States, and in the Western States of Arkansas, Arizona, California, Colorado, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, Nevada, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, and Wisconsin.

D. Union Pacific Technologies

1. Headquarters in St. Louis, Missouri.

(Legend)

MAP OF UNITED STATES (continued)

MAP DESCRIPTION

- - - - -

Two-page light gray map of the Continental United States, western provinces of Canada, and Alaska, on a white background.

The locations of significant assets and operations are indicated on the map by operating company as follows:

E. Union Pacific Corporation

2. Corporate Headquarters in Dallas, Texas.

F. Union Pacific Railroad

6. Headquarters in Omaha, Nebraska.

7. Single and Double Track located in the states of Arizona, Arkansas, California, Colorado, Idaho, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, Wisconsin and Wyoming.

8. Triple and Quadruple Track located in the States of California, Nebraska and Wyoming.

9. Classification Yards located in the states of Arkansas, California, Idaho, Illinois, Louisiana, Missouri, Nebraska, Oregon, and Texas.

10. Major Intermodal Trailer/Container Terminals located in the states of Arizona, Arkansas, California, Colorado, Idaho, Illinois, Louisiana, Missouri, Nebraska, Nevada, Oregon, Tennessee, Texas, Utah, Washington and Wyoming.

G. Overnite Transportation

3. Headquarters in Richmond, Virginia

4. Key Terminals spread throughout the eastern half of the Continental United States, and in the Western States of Arkansas, Arizona, California, Colorado, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Nebraska, Nevada, Oklahoma, Oregon, Tennessee, Texas, Utah, Washington, and Wisconsin.

H. Union Pacific Technologies

2. Headquarters in St. Louis, Missouri.

-----

January 21, 1999

Board of Directors  
Union Pacific Corporation  
1717 Main Street, Suite 5900  
Dallas, Texas 75201

Dear Directors:

We have audited the consolidated financial statements of Union Pacific Corporation and subsidiary companies (the Corporation) as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, incorporated by reference in your Annual Report on Form 10-K to the Securities and Exchange Commission and have issued our report thereon dated January 21, 1999. Note 1 to such consolidated financial statements contains a description of your adoption during the year ended December 31, 1998 of a change in the method of measuring enterprise level goodwill impairment under Accounting Principles Board Opinion No. 17, Intangible Assets, from an undiscounted cash flows approach to a fair value method based on a discounted cash flows approach. In our judgment, such change is to an alternative accounting principle that is preferable under the circumstances.

Yours truly,  
/s/ Deloitte & Touche LLP

-----

SIGNIFICANT SUBSIDIARIES OF UNION PACIFIC CORPORATION

-----

NAME OF CORPORATION	STATE OF INCORPORATION
-----	-----
Overnite Transportation Company.....	Virginia
Southern Pacific Rail Corporation.....	Utah
Union Pacific Railroad Company.....	Delaware

## INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Post-Effective Amendment No. 1 to Registration Statement No. 2-79663, Post-Effective Amendment No. 1 to Registration Statement No. 33-12513, Registration Statement No. 33-18877, Registration Statement No. 33-22106, Registration Statement No. 33-44236, Registration Statement No. 33-53968, Registration Statement No. 33-49785, Registration Statement No. 33-49849, Registration Statement No. 33-51071, Registration Statement No. 33-51735, Registration Statement No. 33-58563, Registration Statement No. 333-10797, Registration Statement No. 333-13115 and Registration Statement No. 333-16563 on Forms S-8 and Registration Statement No. 333-18345, Registration Statement No. 333-54009 and Post-Effective Amendment No. 1 to Registration Statement No. 333-51617 on Forms S-3 of our report dated January 21, 1999 (which expresses an unqualified opinion and includes an explanatory paragraph relating to a change in accounting principle), incorporated by reference in this Annual Report on Form 10-K of Union Pacific Corporation for the year ended December 31, 1998.

/s/ Deloitte & Touche LLP

Dallas, Texas  
March 25, 1999



UNION PACIFIC RAILROAD CORPORATION

POWERS OF ATTORNEY

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ PHILIP F. ANSCHUTZ  
-----  
Philip F. Anschutz

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ ROBERT P. BAUMAN  
-----  
Robert P. Bauman

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ RICHARD B. CHENEY  
-----  
Richard B. Cheney

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ E. VIRGIL CONWAY  
-----  
E. Virgil Conway

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ RICHARD K. DAVIDSON

-----  
Richard K. Davidson

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ THOMAS J. DONOHUE

-----  
Thomas J. Donohue

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ SPENCER F. ECCLES

-----  
Spencer F. Eccles

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ ELBRIDGE T. GERRY, JR.

-----  
Elbridge T. Gerry, Jr.

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ WILLIAM H. GRAY, III

-----  
William H. Gray, III

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ JUDITH RICHARDS HOPE

-----  
Judith Richards Hope

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ RICHARD J. MAHONEY

-----  
Richard J. Mahoney

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ JOHN R. MEYER

-----  
John R. Meyer

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ THOMAS A. REYNOLDS, JR.

-----  
Thomas A. Reynolds, Jr.

I, the undersigned, a director of Union Pacific Corporation, a Utah Corporation (the Company), do hereby appoint each of Gary M. Stuart, Carl W. von Bernuth, Richard J. Ressler and Thomas E. Whitaker my true and lawful attorney-in-fact and agent, to sign on my behalf the Company's Annual Report on Form 10-K for the year ended December 31, 1998, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

/s/ RICHARD D. SIMMONS

-----  
Richard D. Simmons



YEAR	DEC-31-1998	JAN-01-1998	DEC-31-1998
			176
		0	
		643	
		0	
		343	
	1,502		33,145
		6,206	
		29,374	
	2,932		8,511
	0		0
		0	691
		6,702	
29,374			0
	10,553		0
		10,724	
		0	
		0	
		714	
		(696)	
		(63)	
	(633)		
		0	
		0	
			0
		(633)	
		(2.57)	
		(2.57)	



1,000,000

3-MOS		3-MOS		3-MOS	
DEC-31-1998		DEC-31-1998		DEC-31-1998	
JAN-01-1998		APR-01-1998		OCT-01-1998	
MAR-31-1998		JUN-30-1998		SEP-01-1998	
	191		301		557
	0		0		0
	704		638		659
	0		0		0
	309		324		314
1,500		1,557		1,807	
	31,936		32,620		32,968
5,704		5,904		5,988	
29,194		29,296		29,778	
2,924		3,127		3,035	
	9,258		8,403		9,032
0		0		0	
	0		0		0
	691		691		691
	7,427		6,945		6,937
29,194		29,296		29,778	
	0		0		0
2,586		5,209		7,869	
	0		0		0
2,553		5,315		7,765	
0		0		0	
0		0		0	
161		338		526	
(106)		(367)		(309)	
(44)		(151)		(127)	
(62)		(216)		(182)	
0		(262)		(262)	
0		0		0	
	0		0		0
	(62)		(478)		(444)
	(0.25)		(1.94)		(1.80)
	(0.25)		(1.94)		(1.80)





1,000,000

3-MOS			3-MOS			3-MOS		
DEC-31-1997	JAN-01-1997	MAR-31-1997	DEC-31-1997	APR-01-1997	JUN-30-1997	DEC-31-1997	OCT-01-1997	SEP-01-1997
		94						201
	0			0			0	
	767			863			879	
	0			0			0	
	275			291			295	
1,521		30,476	1,620		31,105	1,681		30,994
5,230			5,474			5,375		
28,254			28,813			28,748		
3,169		8,075	3,285		8,292	3,386		8,185
0		0	0		0	0		0
		688		689			690	
	7,551		7,669		28,748	7,794		
28,254		28,813		0				0
	2,810		5,693			8,518		0
		0		0				0
	2,493		4,901			7,303		
	0		0			0		
	0		0			0		
150			296			453		
205			552			921		
	77		208			337		
128			344			584		
	0		0			0		
	0		0			0		
		0		0				0
	128		344			584		
	0.52		1.40			2.38		
	0.52		1.39			2.35		



1,000,000

3-MOS			3-MOS			3-MOS		
DEC-31-1996	JAN-01-1996	MAR-31-1996	DEC-31-1996	APR-01-1996	JUN-30-1996	DEC-31-1996	OCT-01-1996	SEP-01-1996
		80						148
	0			0			0	
	491			463			716	
	0			0			0	
	227			220			292	
	1,690			1,639			2,113	
	4,746	19,006		4,866	19,205		4,970	29,443
	19,653			19,795			29,351	
2,018		6,129			5,923			8,374
0		0		0			0	
	582			582			679	
	5,854	19,795		6,014	29,351		7,346	
19,653		0			0			0
	1,968			3,980			5,976	
		0			0			0
	1,731			3,377			4,978	
	0			0			0	
	117			231			346	
	138			422			754	
	31			129			250	
107				293			504	
	49			107			171	
	0			0			0	
		0			0			0
	156			400			675	
	0.76			1.95			3.25	
	0.76			1.94			3.23	



1,000,000

YEAR	DEC-31-1997	YEAR	DEC-31-1996	YEAR	DEC-31-1995
	JAN-01-1997		JAN-01-1996		JAN-01-1995
	DEC-31-1997		DEC-31-1996		DEC-31-1995
		90		192	230
	0		0		0
	727		571		403
	0		0		0
	296		304		238
	1,511	31,514	1,410	30,097	1,733
	5,537		5,053		4,643
	28,860		27,990		19,500
	3,343		3,119		1,953
	0	8,285	0	7,900	0
	0		0		0
	690		686		581
28,860	7,535		7,539		5,783
	27,990		19,500		0
	0		0		0
	11,079	8,786		7,486	
	0		0		0
	9,935	7,354		6,244	
	0	0		0	
	0	0		0	
	605	501		450	
	676	1,113		933	
	244	380		314	
	432	733		619	
	0	171		327	
	0	0		0	
	0	0		0	
	432	904		946	
	1.76	4.17		4.62	
	1.74	4.14		4.60	