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the business and operations of the Company and do any and all other acts and things that may be reasonably necessary or advisable to enable such Selling Holder to consummate the disposition of the Registrable Securities owned by such Selling Holder; provided that the Company will not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph (d), (B) subject itself to taxation in any such jurisdiction, (C) consent to general service of process in any such jurisdiction or (D) consent to any material restrictions on the conduct of its business or any restrictions on payments to any stockholders of the Company; and provided further that the Holders will not be required to take any action pursuant to this paragraph (d).

(e) The Company will promptly notify each Selling Holder of such Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and promptly make available to each Selling Holder any such supplement or amendment.

(f) The Company and each Selling Holder will enter into customary agreements (including an underwriting agreement in customary form containing customary representations, warranties, covenants, opinions, certificates, cross-indemnification and contribution provisions) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities.

(g) The Company will make available for inspection by any Selling Holder of such Regis-

trable Securities, any Underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other professional retained by any such Selling Holder or Underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company (collectively, the "Records") as shall be reasonably necessary to conduct due diligence, and cause the Company's officers, directors and employees to supply all information reasonably requested by any Inspectors in connection with such registration statement. The Selling Holders shall cause such Records which the Company determines, in good faith, to be confidential and which the Company notifies the Inspectors are confidential to be kept confidential by the Inspectors and not used for any purpose other than such registration of Registrable Securities, and the Selling Holders shall cause the Inspectors not to disclose the Records unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in such registration statement or (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction. Information obtained by any Selling Holder hereunder as a result of such inspections shall be deemed confidential and shall be kept confidential by the Selling Holders and may not be used by any Selling Holder for any purpose other than such registration of Registrable Securities. Each Selling Holder will, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential.

(h) The Company will furnish to each Selling Holder and to each Underwriter, if any, a signed counterpart, addressed to such Selling Holder or Underwriter, of (i) an opinion or opinions of counsel to the Company and (ii) a comfort letter or comfort letters from the

Company's independent public accountants, each in customary form and covering such matters of the type customarily covered by opinions or comfort letters, as the case may be, as the Holders of a majority of the Registrable Securities included in such offering or the managing Underwriter therefor reasonably requests.

(i) The Company will otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security-holders, as soon as reasonably practicable, an earnings statement covering a period of 12 months, beginning within three months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act.

(j) The Company will use its best efforts to cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by the Company are then listed.

Each Selling Holder of Registrable Securities agrees to promptly furnish in writing to the Company such information regarding the distribution of the Registrable Securities as the Company may from time to time reasonably request and such other information as may be legally required in connection with such registration.

Upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3.1(e) hereof, each Selling Holder will forthwith discontinue disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such Selling Holder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 3.1(e) hereof, and, if so directed by the Company, such Selling Holder will deliver to the Company all copies, other than permanent file copies then in such Selling Holder's possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice. In the event the Company shall give such notice, the Company shall extend the period during which such registration statement shall be

maintained effective (including the period referred to in Section 3.1(a) hereof) by the number of days during the period from and including the date of the giving of notice pursuant to Section 3.1(e) hereof to the date when the Company shall make available to the Selling Holders of Registrable Securities covered by such registration statement a prospectus supplemented or amended to conform with the requirements of Section 3.1(e) hereof.

The procedures set forth in this Section 3.1 shall apply to Piggy-Back Registrations pursuant to Section 2.2.

SECTION 3.2. Registration Expenses. In connection with any registration statement required to be filed hereunder, the Company shall pay the following Registration expenses incurred in connection with the registration hereunder (the "Registration Expenses"): (i) all registration and filing fees, (ii) fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities), (iii) printing expenses, (iv) internal expenses (including without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), (v) the fees and expenses incurred in connection with the listing of the Registrable Securities, and (vi) reasonable fees and disbursements of counsel for the Company and customary fees and expenses for independent certified public accountants retained by the Company (including the expenses of any comfort letters or costs associated with the delivery by independent certified public accountants of a comfort letter or comfort letters requested pursuant to Section 3.1(h) hereof). The Company shall have no obligation to pay any underwriting fees, discounts, commissions or expenses attributable to the sale of Registrable Securities, including, without limitation, the fees and expenses of any Underwriters and such Underwriters' counsel, or any out-of-pocket expenses of the Holders (or the agents who manage their accounts), including, without limitation, the fees and expenses of any counsel retained by the Holders. Such Holders' fees, discounts, commissions and expenses shall be paid promptly by the Holders.

## ARTICLE IV

## INDEMNIFICATION AND CONTRIBUTION

SECTION 4.1. Indemnification by the Company. The Company agrees to indemnify and hold harmless each Selling Holder of Registrable Securities, its officers, directors and agents, and each Person, if any, who controls such Selling Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) caused by any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus relating to the Registrable Securities or in any amendment or supplement thereto or in any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished in writing to the Company by such Selling Holder or on such Selling Holder's behalf expressly for the use therein; provided, that with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus, the indemnity agreement contained in this paragraph shall not apply to the extent that any such loss, claim, damage, liability or expense results from the fact that a current copy of the prospectus was not sent or given to the person asserting any such loss, claim, damage, liability or expense at or prior to the written confirmation of the sale of the Registrable Securities concerned to such person if it is determined that it was the responsibility of such Selling Holder to provide such person with a current copy of the prospectus and such current copy of the prospectus would have cured the defect giving rise to such loss, claim, damage, liability or expense. The Company also agrees to indemnify any Underwriters of the Registrable Securities, their officers and directors and each person who controls such underwriters on substantially the same basis as that of the indemnification of the Selling Holders provided in this Section 4.1.

SECTION 4.2. Indemnification by Holders of Registrable Securities. Each Selling Holder agrees, severally but not jointly, to indemnify and hold harmless the Company, its officers, directors and agents and each Person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such Selling Holder, but only with respect to information furnished in writing by such Selling Holder or on such Selling Holder's behalf expressly for use in any registration statement or prospectus relating to the Registrable Securities, or any amendment or supplement thereto, or any preliminary prospectus; and provided that the liability of each Selling Holder under the foregoing indemnity shall be limited to an amount equal to the public offering price of the Registrable Securities sold by such Selling Holder, less the applicable underwriting discounts and commissions. Each Selling Holder also agrees to indemnify and hold harmless Underwriters of the Registrable Securities, their officers and directors and each person who controls such Underwriters on substantially the same basis as that of the indemnification of the Company provided in this Section 4.2.

SECTION 4.3. Conduct of Indemnification Proceeding. If any action or proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 4.1 or 4.2, such person (an "Indemnified Party") shall promptly notify the person against whom such indemnity may be sought (an "Indemnifying Party") in writing and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party, and shall assume the payment of all expenses. Such Indemnified Party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (a) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (b) the named parties to any such action or proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing inter-

ests between them. It is understood that the Indemnifying Party shall not, in connection with any one such action or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for all such Indemnified Parties, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Indemnified Parties, such firm shall be designated in writing by the Indemnified Parties and shall, in the case of a Demand Registration, be reasonably satisfactory to the Indemnifying Party. The Indemnifying Party shall not be liable for any settlement of any such action or proceeding effected without its written consent, but if settled with its written consent, or if there be a final judgment for the plaintiff in any such action or proceeding, the Indemnifying Party shall indemnify and hold harmless such Indemnified Parties from and against any loss or liability (to the extent stated above) by reason of such settlement or judgment. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of with any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability arising out of such proceeding.

SECTION 4.4. Contribution. If the indemnification provided for in this Article IV is unavailable to the Indemnified Parties in respect of any losses, claims, damages or liabilities referred to herein, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (a) as between the Company and the Selling Holders on the one hand and the Underwriters on the other, in such proportion as is appropriate to reflect the relative benefits received by the Company and the Selling Holders on the one hand and the Underwriters on the other from the offering of the securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only such relative benefits but also the

relative fault of the Company and the Selling Holders on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations and (b) as between the Company on the one hand and each Selling Holder on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of each Selling Holder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by the Company and the Selling Holders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company and the Selling Holders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the prospectus. The relative fault of the Company and the Selling Holders on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and the Selling Holders or by the Underwriters. The relative fault of the Company on the one hand and of each Selling Holder on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Selling Holders agree that it would not be just and equitable if contribution pursuant to this Section 4.4 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages or liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the

limitation set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4.4, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, and no Selling Holder shall be required to contribute any amount in excess of the amount by which the total price at which the Securities of such Selling Holder were offered to the public exceeds the amount of any damages which such Selling Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

## ARTICLE V

## EFFECTIVENESS

SECTION 5.1. Effectiveness. This Agreement shall become effective only upon the consummation of the Offer and shall terminate and be void and of no force or effect if the Merger Agreement is terminated in accordance with its terms prior to the consummation of the Offer.

## ARTICLE VI

## MISCELLANEOUS

SECTION 6.1. Participation in Underwritten Registrations. No Person may participate in any underwritten registration hereunder unless such Person (a) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers

of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements and these Registration Rights.

SECTION 6.2. Merger, Consolidation, Exchange, Recapitalization etc. In the event, directly or indirectly, (a) the Company shall merge with and into, or consolidate with, or consummate a share exchange with, any other person, or (b) any person shall merge with and into, or consolidate, the Company and the Company shall be the surviving corporation of such merger or consolidation and, in connection with such merger or consolidation, all or part of the Registrable Securities shall be changed into or exchanged for stock or other securities of any person, or (c) any capital stock or other securities are issued in respect of, in exchange for, or in substitution of, any Company equity securities by reason of any reorganization, recapitalization, reclassification, merger, consolidation, spin-off, partial or complete liquidation, stock dividend, split-up, split-off, sale of assets, distribution to stockholders or combination of the shares of the Company equity securities or any other alteration of the Company's capital structure, then, in each such case, appropriate adjustments shall be made so as to fairly and equitably preserve, as far as practicable, the original rights and obligations of the parties hereto under this Registration Rights Agreement.

SECTION 6.3. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by an overnight courier service, such as FedEx, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to the Holder, to:

UP Acquisition Corporation
Martin Tower
Eighth & Eaton Avenues
Bethlehem, Pennsylvania 18018
Attention: Carl W. von Bernuth, Esq.
Telephone No.: (610) 861-3200
Telecopy No.: (610) 861-3111

with a copy to:

Paul T. Schnell, Esq.
Skadden, Arps, Slate, Meagher, & Flom
919 Third Avenue
New York, New York 10022
Telephone No.: (212) 735-3000
Telecopy No.: (212) 735-2001

and

(b) if to the Company to:

Southern Pacific Rail Corporation
Southern Pacific Building
One Market Plaza
San Francisco, California 94015
Attention: Cannon Y. Harvey, Esq.
Telephone No.: (415) 541-1000
Telecopy No.: (415) 541-1881

with a copy to:

Joseph W. Morrisey, Jr., Esq.
Holme Roberts & Owen LLC
1700 Lincoln
Suite 4100
Denver, Colorado 80203
Telephone No.: (303) 861-7000
Telecopy No.: (303) 866-0200

and

Peter D. Lyons, Esq.
Shearman & Sterling
599 Lexington Avenue
New York, New York 10022
Telephone No.: (212) 848-4000
Telecopy No.: (212) 848-7179

SECTION 6.4. No Waivers; Remedies. No failure or delay by any party in exercising any right, power or privilege under this Agreement shall operate as a waiver of the right, power or privilege. A single or partial exercise of any right, power or privilege shall not preclude any other or further exercise of the right,

power or privilege or the exercise of any other right, power or privilege. The rights and remedies provided in this Agreement shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 6.5. Amendments, etc. No amendment, modification, termination or waiver of any provision of this Agreement, and no consent to any departure by a party to this Agreement from any provision of this Agreement, shall be effective unless it shall be in writing and signed and delivered by the other party to this Agreement, and then it shall be effective only in the specific instance and for the specific purpose for which it is given.

SECTION 6.6. Assignment. The provisions of this Agreement shall not be assignable and any transfer of Registrable Securities shall not transfer any rights under this Agreement to the transferee; provided, however, that (a) the Holder shall have the right to assign its rights under this Agreement to any Person who or which (i) acquires at least 20% of the Company Common Stock purchased by the Holder in the Offer, (ii) would be eligible to report its ownership of the Company Common Stock (assuming ownership by such Person of a sufficient number of shares of the Company Common Stock to require such reporting) on a Schedule 13G, (iii) shall have agreed in writing (which agreement shall be addressed, and shall be reasonably satisfactory in form and substance, to the Company) to be bound by and comply with this Agreement with the same force and effect as if all references herein to the Holder were references to such Person, and (iv) is reasonably acceptable to the Company, and (b) without the consent of the Company, but subject to clauses (i) and (iii) of subsection (a) above, the Holder shall have the right to assign its rights under this Agreement to (x) any financial institution to which such Holder has, in accordance with Section 3(b) of the Shareholders Agreement, pledged shares of the Company Common Stock, provided that such assignment shall not be effective until following a default by Holder under such pledge, (y) any Affiliate of the Holder or Parent (it being understood and agreed that any such rights transferred to any such Affiliate shall terminate if such Affiliate ceases to be an Affiliate of the Holder or Parent) or (z) the Trustee under the Voting Trust (as such terms are defined in the Merger Agreement).

SECTION 6.7. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to the principles of conflicts of laws thereof. All rights and obligations of the Company and Holders shall be in addition to and not in limitation of those provided by applicable law.

SECTION 6.8. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were on the same instrument.

SECTION 6.9. Severability of Provisions. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of the prohibition or unenforceability without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of the provision in any other jurisdiction.

SECTION 6.10. Headings and References. Section headings in this Agreement are included for the convenience of reference only and do not constitute a part of this Agreement for any other purpose. Reference to parties and sections in this Agreement are references to the parties to or the sections of this Agreement, as the case may be, unless the context shall require otherwise.

SECTION 6.11. Entire Agreement. This Agreement embodies the entire agreement and understanding of the respective parties with respect to the Holders' registration rights and supersedes all prior agreements or understandings with respect to such rights.

SECTION 6.12. Survival. Except as otherwise specifically provided in this Agreement, each representation, warranty or covenant of each party to this Agreement contained in or made pursuant to this Agreement shall survive and remain in full force and effect, notwithstanding any investigation or notice to the contrary or any waiver by any other party of a related condition precedent to the performance by the other party of an obligation under this Agreement.

SECTION 6.13. Non-Exclusive Jurisdiction. Each party hereto (a) agrees that any action, suit or proceeding (collectively, an "Action") with respect to this Agreement may be brought in the courts of the United States of America for the Southern District of New York, (b) accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of those courts and (c) irrevocably waives any objection, including, without limitation, any objection to the laying of venue or based on the grounds of FORUM NON CONVENIENS, which it may now or hereafter have to the bringing of any Action in those jurisdictions.

SECTION 6.14. Waiver of Jury Trial. Each party waives any right to a trial by jury in any Action to enforce or defend any right under this Agreement or any amendment, instrument, document or agreement delivered, or which in the future may be delivered, in connection with this Agreement and agrees that any Action shall be tried before a court and not before a jury.

SECTION 6.15. Specific Performance. Each of the parties hereto recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore each of the parties hereto agrees that in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

SECTION 6.16. No Inconsistent Agreements. The Company is not as of the date hereof subject to any agreement with respect to the registration under the Securities Act of any securities of the Company or otherwise, and prior to the Termination Date shall not enter into any such agreement that is inconsistent with the provisions of this Agreement, including, without limitation, the order of priority by which the total amount of securities of the Company to be included in any offering subject to Article II shall be reduced pursuant to Section 2.3.

IN WITNESS WHEREOF, the Company and the Holder have caused this Agreement to be duly executed as of the date first above written.

SOUTHERN PACIFIC RAIL CORPORATION

By: _____
Name:
Title:

UP ACQUISITION CORPORATION

By: _____
Name:
Title:

THIS VOTING TRUST AGREEMENT, dated as of August 3, 1995, by and among UNION PACIFIC CORPORATION, a Utah corporation ("Parent"), UP ACQUISITION CORPORATION, a Delaware corporation and an indirect wholly-owned subsidiary of Parent (the "Purchaser"), and SOUTHWEST BANK OF ST. LOUIS, a Missouri banking corporation (the "Trustee"),

W I T N E S S E T H:

WHEREAS, the Purchaser has agreed to commence a tender offer (the "Tender Offer") to acquire up to 39,034,471 shares of common stock, $0.001 par value ("Common Stock"), of Southern Pacific Rail Corporation, a Delaware corporation (the "Company");

WHEREAS, the Purchaser intends, simultaneously with the acceptance for payment of such tendered shares pursuant to the Tender Offer, to deposit such shares of Common Stock in an independent, irrevocable voting trust, pursuant to the rules of the Interstate Commerce Commission (the "ICC"), in order to avoid any allegation or assertion that Parent or the Purchaser is controlling or has the power to control the Company prior to the receipt of approval by the ICC of the merger (the "Merger") of the Company with and into Union Pacific Railroad Company ("UPRR") pursuant to the Agreement and Plan of Merger dated as of August 3, 1995 by and among Parent, UPRR, the Purchaser and the Company, as it may be amended from time to

time (the "Merger Agreement") (a copy of which is attached hereto as Exhibit A);

WHEREAS, Parent, Purchaser and the Company have entered into a Shareholders Agreement dated as of August 3, 1995 (the "Shareholders Agreement") (a copy of which is attached hereto as Exhibit B), with respect to the Common Stock and any other voting securities of the Company that are or come to be beneficially owned by Parent, Purchaser or any of their affiliates during the term of the Shareholders Agreement;

WHEREAS, neither the Trustee nor any of its affiliates has any officers or board members in common or any direct or indirect business arrangements or dealings (as described in Paragraph 9 hereof) with Parent or the Purchaser or any of their affiliates; and

WHEREAS, the Trustee is willing to act as voting trustee pursuant to the terms of this Trust Agreement and the rules of the ICC,

NOW THEREFORE, the Parties hereto agree as follows:

1. Parent and the Purchaser hereby appoint Southwest Bank of St. Louis as Trustee hereunder, and Southwest Bank of St. Louis hereby accepts said appointment and agrees to act as Trustee under this Trust Agreement as provided herein.

2. Parent and the Purchaser agree that, prior to acceptance of the tendered shares of Common Stock pursuant to the Tender Offer, (i) the Purchaser will direct the depositary for the Tender Offer to transfer to the Trustee any shares accepted for payment pursuant to the Tender Offer, and (ii) Parent and the Purchaser will transfer or cause to be transferred to the Trustee all certificates representing shares of Common Stock owned as of the date hereof by Parent, the Purchaser or any affiliate of either of them. Parent and the Purchaser also agree that immediately upon receipt, acquisition or purchase by either of them or by any of their affiliates of any additional shares of Common Stock, or any other voting securities of the Company, they will transfer or cause to be transferred to the Trustee the certificate or certificates representing such additional shares. All such certificates shall be duly endorsed or accompanied by proper instruments duly executed for transfer thereof to the Trustee, and shall be exchanged for one or more Voting Trust Certificates substantially in the form attached hereto as Exhibit C (the "Trust Certificates"), with the blanks therein appropriately filled. All shares of Common Stock and other voting securities of the Company at any time delivered to the Trustee hereunder are hereinafter called the "Company Trust Stock." The Trustee shall present to the Company all certificates representing Company Trust Stock for surrender

and cancellation and for the issuance and delivery to the Trustee of new certificates (the "Trust Stock") registered in the name of the Trustee or its nominee.

3. The Trustee shall be present, in person or represented by proxy, at all annual and special meetings of shareholders of the Company so that all Trust Stock may be counted for the purposes of determining the presence of a quorum at such meetings. The Trustee shall be entitled and it shall be its duty to exercise any and all voting rights in respect of the Trust Stock either in person or by proxy or consent, as hereinafter provided, unless otherwise directed by an order of the ICC or a court of competent jurisdiction. Parent and Purchaser agree, and the Trustee acknowledges, that the Trustee shall not participate in or interfere with the management of the Company and shall take no other actions with respect to the Company except in accordance with the terms hereof and the terms of the Shareholders Agreement. The Trustee shall vote all shares of the Trust Stock to approve and effect the Merger, and in favor of any proposal necessary to effectuate Parent's acquisition of the Company pursuant to the Merger Agreement. For so long as the Merger Agreement is in effect, the Trustee shall vote all shares of Trust Stock against any other proposed merger, business combination or similar transaction (including, without limitation, any consolidation, sale of all or substantially all the assets,

reorganization, recapitalization, liquidation or winding up of or by the Company) involving the Company, but not involving Parent or one of its subsidiaries or affiliates, other than in connection with a disposition pursuant to Paragraph 8. The Trustee shall vote all shares of Trust Stock in favor of any proposal or action necessary or desirable to dispose of Trust Stock in accordance with Paragraph 8 hereof. Except as otherwise expressly provided in the three immediately preceding sentences, the Trustee shall vote all shares of Trust Stock with respect to all matters, including without limitation the election or removal of directors, voted on by the shareholders of the Company (whether at a regular or special meeting or pursuant to a unanimous written consent) in the same proportion as all shares of Common Stock (other than Trust Stock) are voted with respect to such matters. In exercising its voting rights in accordance with this Paragraph 3, the Trustee shall take such actions at all annual, special or other meetings of stockholders of the Company or in connection with any action by consent in lieu of a meeting.

4. This Trust Agreement and the nomination of the Trustee during the term of the trust shall be irrevocable by Parent and the Purchaser and their affiliates and shall terminate only in accordance with the provisions of Paragraphs 8 and 14 hereof.

5. Except as provided in Paragraph 3, the Trustee shall not exercise the voting powers of the Trust Stock in any way so as to create any dependence or intercorporate relationship between (i) Parent, the Purchaser and their affiliates, on the one hand, and (ii) the Company or its affiliates, on the other hand. The term "affiliate" or "affiliates" wherever used in this Trust Agreement shall have the meaning specified in Section 11343(c) of Title 49 of the United States Code, as amended. The Trustee shall not, without the prior approval of the ICC, vote the Trust Stock to elect any officer, director, nominee or representative of Parent, the Purchaser or any affiliate of either of them as an officer or director of the Company or of any affiliate of the Company. The Trustee shall be kept informed respecting the business operations of the Company by means of the financial statements and other public disclosure documents periodically filed by the Company and affiliates of the Company with the Securities and Exchange Commission (the "SEC") and the ICC, and by means of information respecting the Company contained in such statements and other documents filed by Parent with the SEC and the ICC, copies of which shall be promptly furnished to the Trustee by the Company or Parent, as the case may be, and the Trustee shall be fully protected in relying upon such information. The Trustee shall not be liable for any mistakes of fact or law or any error of judgment, or for

any act or omission, except as a result of the Trustee's willful misconduct or gross negligence.

6. All Trust Certificates shall be transferable on the books of the Trustee by the registered holder upon the surrender thereof properly assigned, in accordance with rules from time to time established for the purpose by the Trustee. Until so transferred, the Trustee may treat the registered holder as owner for all purposes. Each transferee of a Trust Certificate issued hereunder shall, by his acceptance thereof, assent to and become a party to this Trust Agreement, and shall assume all attendant rights and obligations.

7. Pending the termination of this Trust as hereinafter provided, the Trustee shall, immediately following the receipt of each cash dividend or cash distribution as may be declared and paid upon the Trust Stock, pay the same over to or as directed by the Purchaser or to or as directed by the holder of Trust Certificates hereunder as then known to the Trustee. The Trustee shall receive and hold dividends and distributions other than cash upon the same terms and conditions as the Trust Stock and shall issue Trust Certificates representing any new or additional securities that may be paid as dividends upon the Trust Stock or distributed to the registered holders of Trust Certificates in proportion to their respective interests.

8. (a) This Trust is accepted by the Trustee subject to the right hereby reserved in Parent at any time to sell or make any other disposition of the whole or any part of the Trust Stock in accordance with the terms of the Shareholders Agreement, whether or not an event described in subparagraph (b) below has occurred. The Trustee shall take all actions reasonably requested by Parent with respect to (including, without limitation, exercising all voting rights in respect of Trust Stock in favor of any proposal or action necessary or desirable to effect, or consistent with the effectuation of) any proposed sale or other disposition of the whole or any part of the Trust Stock by the Purchaser or Parent, including, without limitation, in connection with the exercise by Parent of any rights under the Merger Agreement, the Registration Rights Agreement dated as of August 3, 1995 between the Purchaser and the Company (the "Registration Rights Agreement") (a copy of which is attached hereto as Exhibit D), and the Shareholders Agreement to cause Trust Stock to be offered and sold pursuant to a registration statement under the Securities Act of 1933 (an "Offering") or distributed to shareholders of Parent (the "Distribution"). The Trustee shall at any time upon the receipt of a direction from Parent, signed by its President or one of its Vice Presidents and under its corporate seal designating the person or entity to whom Parent has directly or indirectly sold or

otherwise disposed of the whole or any part of the Trust Stock and certifying that such disposition will be in compliance with all applicable requirements of the Shareholders Agreement and that such person or entity is not an affiliate of Parent and has all necessary regulatory authority, if any, to purchase the Trust Stock (upon which certification the Trustee shall be entitled to rely), immediately transfer to the person or entity therein named all of the Trustee's right, title and interest in such amount of the Trust Stock as may be set forth in said direction. If the foregoing direction shall specify all of the Trust Stock, then following transfer of the Trustee's right, title and interest therein, and in the event of a sale thereof, upon delivery to or upon the order of the Purchaser of the proceeds of such sale, this Trust shall cease and come to an end. If the foregoing direction is as to only a part of the Trust Stock, then this Trust shall cease as to said part upon such transfer, and receipt of proceeds in the event of sale, but shall remain in full force and effect as to the remaining part of the Trust Stock, provided, however, that upon the receipt of a written opinion of counsel for Parent, a copy of which is submitted to the ICC, stating that the transfer of voting rights in all the remaining Trust Stock to the Purchaser would not give Parent or the Purchaser control of the Company within the meaning of 49 U.S.C. § 11343, and absent any contrary direction of the ICC, this Trust shall

cease and come to an end and all Trust Stock and other property then held by the Trustee shall be distributed to or upon the order of the Purchaser or the holder or holders of Trust Certificates. In the event of a sale of Trust Stock by the Purchaser, the Trustee shall, to the extent the consideration therefor is payable to or controllable by the Trustee, promptly pay, or cause to be paid, upon the order of the Purchaser the net proceeds of such sale to the registered holders of the Trust Certificates in proportion to their respective interests. It is the intention of this paragraph that no violations of 49 U.S.C. § 11343 will result from a termination of this Trust.

(b) In the event the ICC by final order shall (i) approve or exempt the acquisition of control of the Company by the Purchaser, Parent or any of their affiliates or (ii) approve or exempt a merger between the Company and UPRR, Parent or any of their affiliates, then immediately upon the direction of Parent and the delivery of a certified copy of such order of the ICC or other governmental authority with respect thereof, or, in the event that Subtitle IV of Title 49 of the United States Code, or other controlling law, is amended to allow the Purchaser, UPRR, Parent or their affiliates to acquire control of the Company without obtaining ICC or other governmental approval, upon delivery of an opinion of independent counsel selected by the Trustee that no

order of the ICC or other governmental authority is required, the Trustee shall either (i) transfer to or upon the order of the Purchaser, Parent or the holder or holders of Trust Certificates hereunder as then known to the Trustee, its right, title and interest in and to all of the Trust Stock then held by it in accordance with the terms, conditions and agreements of this Trust Agreement and not theretofore transferred by it as provided in subparagraph (a) hereof, or (ii) if shareholder approval has not previously been obtained, vote the Trust Stock with respect to any such merger between the Company and DPRR, Parent or any affiliate of either as directed by the holder or holders of the Trust Certificates, and upon any such transfer or merger this Trust shall cease and come to an end.

(c) In the event that the Merger Agreement terminates in accordance with its terms or the condition set forth in Section 6.2(c) of the Merger Agreement is not satisfied and is not waived by Parent and the Purchaser, Parent shall use its best efforts, consistent with its rights under and subject to the terms of the Shareholders Agreement and the Registration Rights Agreement, to sell the Trust Stock to one or more eligible purchasers, to sell or distribute the Trust Stock in one Offering or Distribution, or otherwise to dispose of the Trust Stock, during a period of two years after such order becomes final after judicial review or failure to

appeal or such extension of that period as the ICC shall approve. Such disposition shall be subject to any jurisdiction of the ICC to oversee Parent's divestiture of Trust Stock. At all times, the Trustee shall continue to perform its duties under this Trust Agreement and, should Parent be unsuccessful in its efforts to sell or distribute the Trust Stock during the period referred to, the Trustee, subject to the terms of the Shareholders Agreement, shall as soon as practicable sell the Trust Stock for cash to one or more eligible purchasers in such manner and for such price as the Trustee in its discretion shall deem reasonable after consultation with Parent. (An "eligible purchaser" hereunder shall be a person or entity that is not affiliated with Parent and which has all necessary regulatory authority, if any, to purchase the Trust Stock.) Parent agrees to cooperate with the Trustee in effecting such disposition and the Trustee agrees to act in accordance with any direction made by Parent as to any specific terms or method of disposition, to the extent not inconsistent with the requirements of the terms of any ICC or court order. The proceeds of the sale shall be distributed to or upon the order of Parent or, on a pro rata basis, to the holder or holders of the Trust Certificates hereunder as then known to the Trustee. The Trustee may, in its reasonable discretion, require the surrender to it of the Trust Certificates hereunder before paying to the holder his

share of the proceeds. Upon disposition of the Trust Stock pursuant to this paragraph 8(c), this Trust shall cease and come to an end.

(d) Unless sooner terminated pursuant to any other provision herein contained, this Trust Agreement shall terminate on August 3, 2000, and may be extended by the parties hereto, so long as no violation of 49 U.S.C. § 11343 will result from such termination or extension. All Trust Stock and any other property held by the Trustee hereunder upon such termination shall be distributed to or upon the order of the Purchaser or the holder or holders of Trust Certificates hereunder as then known to the Trustee. The Trustee may, in its reasonable discretion, require the surrender to it of the Trust Certificates hereunder before the release or transfer of the stock interests evidenced thereby.

(e) The Trustee shall promptly inform the ICC of any transfer or disposition of Trust Stock pursuant to this Paragraph 8.

(f) The Trustee shall, upon direction by Parent, take all actions that are necessary, appropriate or desirable to permit a registration statement for the Trust Stock under the Securities Act of 1933, as amended, and/or an information statement for the Trust Stock under the Securities Exchange Act of 1934, as amended, and, in either case, a registration statement, information statement, exchange offer

or other documents under any other applicable securities laws, to be filed and to become effective in connection with any disposition of the Trust Stock permitted by the Shareholders Agreement. To the extent that registration is required under the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or any other applicable securities laws in respect of any distribution of Trust Stock as contemplated herein, the Purchaser or Parent shall reimburse the Trustee for any expenses incurred by it and indemnify and hold the Trustee harmless from and against any loss, liability, cost or expense related thereto or arising therefrom.

(g) Except as provided in this Paragraph 8, the Trustee shall not dispose of, or in any way encumber, the Trust Stock.

(h) Notwithstanding the foregoing, if the ICC issues a declaratory order that the termination of the Trust will not cause Parent, the Purchaser or their affiliates to have control of the Company, the Trustee shall transfer to or upon the order of the Purchaser, Parent or the holder or holders of Trust Certificates hereunder as then known to the Trustee, its right, title and interest in and to all of the Trust Stock then held by it in accordance with the terms, conditions and agreements of this Trust Agreement and not

theretofore transferred by it as provided in subparagraph (a) hereof, and this Trust shall cease and come to an end.

9. Neither the Trustee nor any affiliate of the Trustee may have (i) any officers, or members of their respective boards of directors, in common with the Purchaser, Parent, or any affiliate of either, or (ii) any direct or indirect business arrangements or dealings, financial or otherwise, with the Purchaser, Parent or any affiliate of either, other than dealings pertaining to establishment and carrying out of this voting trust. Mere investment in the stock or securities of the Purchaser or Parent or any affiliate of either by the Trustee, short of obtaining a controlling interest, will not be considered a proscribed business arrangement or dealing, but in no event shall any such investment by the Trustee in voting securities of the Purchaser, Parent or their affiliates exceed 5 percent of their outstanding voting securities and in no event shall the Trustee hold a proportion of such voting securities so substantial as to permit the Trustee in any way to control or direct the affairs of the Purchaser, Parent or their affiliates. Neither the Purchaser, Parent nor their affiliates shall purchase the stock or securities of the Trustee or any affiliate of the Trustee.

10. The Trustee shall be entitled to receive reasonable and customary compensation for all services

rendered by it as Trustee under the terms hereof and said compensation to the Trustee, together with all counsel fees, taxes, or other expenses reasonably incurred hereunder, shall be promptly paid by the Purchaser or Parent, who shall be jointly and severally liable for the same.

11. The Trustee may at any time or from time to time appoint an agent or agents and may delegate to such agent or agents the performance of any administrative duty of the Trustee and be entitled to reimbursement for the fees and expenses of such agents.

12. The Trustee shall not be answerable for the default or misconduct of any agent or attorney appointed by it in pursuance hereof if such agent or attorney shall have been selected with reasonable care. The duties and responsibilities of the Trustee shall be limited to those expressly set forth in this Trust Agreement. The Trustee shall be fully protected by acting in reliance upon any notice, advice, direction or other document or signature believed by the Trustee to be genuine. The Trustee shall not be responsible for the sufficiency or accuracy of the form, execution, validity or genuineness of the Trust Stock, or of any other documents, or of any endorsement thereon, or for any lack of endorsement thereon, or for any description therein, nor shall the Trustee be responsible or liable in any respect on account of the identity, authority or rights of the persons

executing or delivering or purporting to execute or deliver any such Trust Stock or other document or endorsement or this Trust Agreement, except for the execution and delivery of this Trust Agreement by this Trustee. The Purchaser and Parent agree that they will at all times jointly and severally protect, indemnify and save harmless the Trustee from any loss, damages, liability, cost or expense of any kind or character whatsoever in connection with this Trust except those, if any, resulting from the gross negligence or willful misconduct of the Trustee, and will at all times themselves undertake, assume full responsibility for, and pay on a current bases, but at least quarterly, all cost and expense of any suit or litigation of any character, whether or not involving a third party, including any proceedings before the ICC, with respect to the Trust Stock or this Trust Agreement, and if the Trustee shall be made a party thereto, or be the subject of any investigation or proceeding (whether formal or informal), the Purchaser or Parent will pay all costs, damages and expenses, including reasonable counsel fees, to which the Trustee may be subject by reason thereof; provided, however, that the Purchaser and Parent shall not be responsible for the cost and expense of any suit that the Trustee shall settle without first obtaining Parent's written consent. The indemnification obligations of the Purchaser and Parent shall survive any termination of this Trust Agreement or the

removal, resignation or other replacement of the Trustee. The Trustee may consult with counsel selected by it and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or omitted or suffered by the Trustee hereunder in good faith and in accordance with such opinion.

13. To the extent requested to do so by the Purchaser or any registered holder of a Trust Certificate, the Trustee shall furnish to the party making such request full information with respect to (i) all property theretofore delivered to it as Trustee, (ii) all Property then held by it as Trustee, and (iii) all action theretofore taken by it as Trustee.

14. The Trustee, or any trustee hereafter appointed, may at any time resign by giving sixty days' written notice of resignation to Parent and the ICC. Parent shall at least fifteen days prior to the effective date of such notice appoint a successor trustee which shall (i) satisfy the requirements of Paragraph 9 hereof and (ii) be a corporation organized and doing business under the laws of the United States or of any State thereof and authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $50,000,000 and subject to supervision or examination by federal or state authority. If no successor trustee shall have been appointed

and shall have accepted appointment at least fifteen days prior to the effective date of such notice of resignation, the resigning Trustee may petition any authority or court of competent jurisdiction for the appointment of a successor trustee. Upon written assumption by the successor trustee of the Trustee's powers and duties hereunder, a copy of the assumption shall be delivered by the Trustee to Parent and the ICC and all registered holders of Trust Certificates shall be notified of such assumption, whereupon the Trustee shall be discharged of its powers and duties hereunder and the successor trustee shall become vested therewith. In the event of any material violation by the Trustee of the terms and conditions of this Trust Agreement, the Trustee shall become disqualified from acting as trustee hereunder as soon as a successor trustee shall have been selected in the manner provided by this paragraph.

15. Subject to the terms of the Shareholders Agreement, this Trust Agreement may from time to time be modified or amended by agreement executed by the Trustee, the Purchaser, Parent and all registered holders of the Trust Certificates (i) pursuant to an order of the ICC, (ii) with the prior approval of the ICC, (iii) in order to comply with any order of the ICC or (iv) upon receipt of an opinion of counsel satisfactory to the Trustee and the holders of Trust Certificates that an order of the ICC approving such

modification or amendment is not required and that the amendment is consistent with the regulations of the ICC regarding voting trusts.

16. The provisions of this Trust Agreement and of the rights and obligations of the parties hereunder shall be governed by the laws of the State of Delaware, except that to the extent any provision hereof may be found inconsistent with the Interstate Commerce Act or regulations promulgated thereunder by the ICC, such Act and regulations shall control and such provision hereof shall be given effect only to the extent permitted by such Act and regulations. In the event that the ICC shall, at any time hereafter by final order, find that compliance with law requires any other or different action by the Trustee than is provided herein, the Trustee shall act in accordance with such final order instead of the provisions of this Trust Agreement.

17. This Trust Agreement is executed in duplicate, each of which shall constitute an original, and one of which shall be retained by Parent and the other shall be held by the Trustee.

18. A copy of this Agreement and any amendments or modifications thereto shall be filed with the ICC by the Purchaser.

19. This Trust Agreement shall be binding upon the successors and assigns to the parties hereto, including

without limitation successors to the Purchaser and Parent by merger, consolidation or otherwise.

20. The term "ICC" includes any successor agency or governmental department that is authorized to carry out the responsibilities now carried out by the ICC with respect to voting trusts and control of common carriers.

21. (a) Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be mailed by U.S. mail, certified mail, return receipt requested or by Federal Express, Express Mail, or similar overnight delivery or courier service or delivered (in person or by telecopy) against receipt to the party to whom it is to be given at the address of such party set forth below (or to such other address as the party shall have given notice of) with a copy to each of the other parties hereto:

To the Trustee: Southwest Bank of St. Louis
2301 South Kingshighway
St. Louis, Missouri 63110
Attention: Linn H. Bealke
Vice Chairman

To Parent: Union Pacific Corporation
Eighth and Eaton Avenues
Bethlehem, Pennsylvania 18018
Attention: Carl W. von Bernuth, Esq.
Senior Vice President

To the Purchaser: UP Acquisition Corporation
c/o Union Pacific Corporation
Eighth and Eaton Avenues
Bethlehem, Pennsylvania 18018
Attention: Carl W. von Bernuth, Esq.
Vice President

(b) Unless otherwise specifically provided herein, any notice to or communication with the holders of the Trust Certificates hereunder shall be deemed to be sufficiently given or made if enclosed in postpaid envelopes (regular not registered mail) addressed to such holders at their respective addresses appearing on the Trustee's transfer books, and deposited in any post office or post office box. The addresses of the holders of Trust Certificates, as shown on the Trustee's transfer books, shall in all cases be deemed to be the addresses of Trust Certificate holders for all purposes under this Trust Agreement, without regard to what other or different addresses the Trustee may have for any Trust Certificate holder on any other books or records of the Trustee. Every notice so given of mailing shall be the date such notice is deemed given for all purposes.

22. Each of the parties hereto acknowledges and agrees that in the event of any breach of this Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement in any action instituted in any state or federal court sitting in

Wilmington, Delaware. Each party hereto consents to personal jurisdiction in any such action brought in any state or federal court sitting in Wilmington, Delaware.

IN WITNESS WHEREOF, Union Pacific Corporation and UP Acquisition Corporation have caused this Trust Agreement to be executed by their Treasurers and their corporate seals to be affixed, attested by their Secretaries, and Southwest Bank of St. Louis has caused this Trust Agreement to be executed by one of its duly authorized corporate officers and its corporate seal to be affixed, attested to by its Corporate Secretary or one of its Assistant Corporate Secretaries, the day and year first above written.

Attest: UNION PACIFIC CORPORATION

_____ By_____
Secretary Treasurer

Attest: UP ACQUISITION CORPORATION

_____ By_____
Secretary Treasurer

Attest: SOUTHWEST BANK OF ST. LOUIS

_____ By_____

EXHIBIT C

No._____ _____ Shares

VOTING TRUST CERTIFICATE

for

COMMON STOCK,

$0.001 PAR VALUE

of

SOUTHERN PACIFIC RAIL CORPORATION

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

THIS IS TO CERTIFY that _____ will be entitled, on the surrender of this Certificate, to receive on the termination of the Voting Trust Agreement hereinafter referred to, or otherwise as provided in Paragraph 7 of said Voting Trust Agreement, a certificate or certificates for _____ shares of the Common Stock, $0.001 par value, of Southern Pacific Rail Corporation, a Delaware corporation (the "Company"). This Certificate is issued pursuant to, and the rights of the holder hereof are subject to and limited by, the terms of a Voting Trust Agreement, dated as of August 3, 1995, executed by Union Pacific Corporation, a Utah corporation, UP Acquisition Corporation, a Delaware corporation, and Southwest Bank of St. Louis, as Voting Trustee, a copy of which Voting Trust Agreement is on file in the registered office of said corporation at The Corporation Trust Co., 100 West Tenth Street, Wilmington, Delaware 19801, and open to inspection of any stockholder of the Company and the holder hereof. The Voting Trust Agreement, unless earlier terminated (or extended) pursuant to the terms thereof, will terminate on August 3, 2000, so long as no violation of 49 U.S.C. § 11343 will result from such termination.

The holder of this Certificate shall be entitled to the benefits of said Voting Trust Agreement, including the right to receive payment equal to the cash dividends, if any, paid by the Company with respect to the number of shares represented by this Certificate.

This Certificate shall be transferable only on the books of the undersigned Voting Trustee or any successor, to be kept by it, on surrender hereof by the registered holder in person or by attorney duly authorized in accordance with the provisions of said Voting Trust Agreement, and until so transferred, the Voting Trustee may treat the registered

holder as the owner of this Voting Trust Certificate for all purposes whatsoever, unaffected by any notice to the contrary.

By accepting this Certificate, the holder hereof assents to all the provisions of, and becomes a party to, said Voting Trust Agreement.

IN WITNESS WHEREOF, the Voting Trustee has caused this Certificate to be signed by its officer duly authorized.

Dated:

By_____
Authorized Officer

Exhibit I

## Form of Affiliate Agreement

Union Pacific Corporation
Martin Tower
Eighth & Eaton Avenues
Bethlehem, Pennsylvania 18018

Ladies and Gentlemen:

The undersigned is a holder of shares of Common Stock, par value $.001 per share (the "Company Common Stock"), of Southern Pacific Rail Corporation, a Delaware corporation (the "Company"). The undersigned may receive shares of Common Stock, par value $2.50 per share (the "Parent Common Stock"), of Union Pacific Corporation, a Utah corporation ("Parent"), in connection with the merger (the "Merger") of the Company with and into Union Pacific Railroad Company ("UPRR"), a Utah corporation and an indirect wholly owned subsidiary of Parent.

The undersigned acknowledges that the undersigned may be deemed an "affiliate" of the Company as the term "affiliate" is defined for purposes of paragraphs (c) and (d) of Rule 145 ("Rule 145") of the rules and regulations under the Securities Act of 1933, as amended (the "Act"). Execution of this Agreement by the undersigned should not be construed as an admission of "affiliate" status or as a waiver of any rights the undersigned may have to object to any claim that the undersigned is such an affiliate on or after the Date of this Agreement.

If in fact the undersigned were an affiliate of the Company under the Act, the undersigned's ability to sell, transfer or otherwise dispose of any Parent Common Stock received by the undersigned in exchange for any shares of Company Common Stock pursuant to the Merger may be restricted unless such transaction is registered under the Act or an exemption from such registration is available. The undersigned understands that such exemptions are limited and the undersigned has obtained advice of counsel as to the nature and conditions of such exemptions, including information with respect to the applicability to the sale of such securities of Rules 144 and 145(d) promulgated under the Act.

A. The undersigned hereby represents to and covenants with Parent that the undersigned will not sell, transfer or otherwise dispose of any Parent Common Stock received by the undersigned in exchange for shares of Company Common Stock pursuant to the Merger except (i) pursuant to an effective registration statement under the Act, (ii) by a sale made in conformity with the provisions of Rule 145 (and otherwise in accordance with Rule 144 under the Act if the undersigned is an affiliate of Parent and if so required at the time) or (iii) in a transaction which, in the opinion of independent counsel reasonably satisfactory to Parent or as described in a "no-action" or interpretive letter from the Staff of the Securities and Exchange Commission (the "Commission"), is not required to be registered under the Act.

B. The undersigned understands that Parent is under no obligation to register the sale, transfer or other disposition of Parent Common Stock by the undersigned or on behalf of the undersigned under the Act or, except as provided in paragraph F.1 below, to take any other action necessary in order to make compliance with an exemption from such registration available.

C. The undersigned also understands that stop transfer instructions will be given to Parent's transfer agents with respect to the Parent Common Stock issued to the undersigned and that there will be placed on the certificates for the Parent Common Stock issued to the undersigned, or any substitutions therefor, a legend stating in substance:

> "THE SHARES REPRESENTED BY THIS CERTIFICATE WERE ISSUED IN A TRANSACTION TO WHICH RULE 145 PROMULGATED UNDER THE SECURITIES ACT OF 1933 APPLIES. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY ONLY BE TRANSFERRED IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT DATED _____, 1995 BETWEEN THE REGISTERED HOLDER HEREOF AND UNION PACIFIC CORPORATION, A COPY OF WHICH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICES OF UNION PACIFIC CORPORATION."

D. The undersigned also understands that unless a sale or transfer is made in conformity with the provisions of Rule 145, or pursuant to a registration statement, Parent reserves the right to put the following legend on the certificates issued to the undersigned's transferee:

"THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND WERE ACQUIRED FROM A PERSON WHO RECEIVED SUCH SHARES IN A TRANSACTION TO WHICH RULE 145 PROMULGATED UNDER THE SECURITIES ACT OF 1933 APPLIES. THE SHARES HAVE BEEN ACQUIRED BY THE HOLDER NOT WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF WITHIN THE MEANING OF THE SECURITIES ACT OF 1933 AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933."

E. In the event of a sale of Parent Common Stock pursuant to Rule 145, the undersigned will supply Parent with evidence of compliance with such Rule, in the form of customary seller's and broker's Rule 145 representation letters or as Parent may otherwise reasonably request. The undersigned understands that Parent may instruct its transfer agent to withhold the transfer of any Parent Common Stock disposed of by the undersigned in a manner inconsistent with this letter.

F. By Parent's acceptance of this Agreement, Parent hereby agrees with the undersigned as follows:

1. For so long as to the extent necessary to permit the undersigned to sell the Parent Common Stock pursuant to Rule 145 and, to the extent applicable, Rule 144 under the Act, Parent shall (a) use its reasonable best efforts to (i) file, on a timely basis, all reports and data required to be filed with the Commission by it pursuant to Section 13 of the Securities Exchange Act of 1934, as amended (the "1934 Act") and (ii) furnish to the undersigned upon request a written statement as to whether Parent has complied with such reporting requirements during the 12 months preceding any proposed sale of Parent Common Stock by the undersigned under Rule 145 and Rule 144. Parent has filed all reports required to be filed with the Commission under Section 13 of the 1934 Act during the preceding 12 months.

2. It is understood and agreed that the legends set forth in paragraph C and D above shall be removed by delivery of substitute certificates without such legend if such legend is not required for purposes of the Act or this Agreement. It is understood and agreed that such legends and the stop orders referred to above will be removed if (i) two years shall have elapsed from the date the undersigned acquired Parent Common Stock re-

ceived in the Merger and the Provisions of Rule 145(d)(2) are then available to the undersigned, (ii) three years shall have elapsed from the date the undersigned acquired the Parent Common Stock received in the Merger and the provisions of Rule 145(d)(3) are then applicable to the undersigned, (iii) the Parent has received either an opinion of counsel, which opinion and counsel shall be reasonably satisfactory to Parent, or a "no action" letter obtained from the staff of the Commission, to the effect that the Parent Common Stock subject thereto may be transferred free of the restrictions imposed by Rule 144 or 145 under the Act, or (iv) in the event of a sale of Parent Common Stock received by the undersigned in the Merger which has been registered under the Act or made in conformity with the provisions of Rule 145; and, in the case of (i) and (ii) above, Parent has received either an opinion of counsel, which opinion and counsel shall be reasonably satisfactory to Parent, or a "no action" letter obtained from the staff of the Commission, to the effect that the restrictions imposed by Rule 145 under the Act no longer apply to the undersigned.

The undersigned acknowledges that it has carefully reviewed this letter and understands the requirements hereof and the limitations imposed upon the distribution, sale, transfer or other disposition of Parent Common Stock received by the undersigned in the Merger.

Very truly yours,

_____
[Name]

Accepted this __ day of
_____, 199_, by

UNION PACIFIC CORPORATION

By: _____
Name:
Title:

**DISCLOSURE SCHEDULE**
**to**

**Agreement and Plan of Merger**
**dated as of**
**August 3, 1995**

| | |
|---|---|
| Schedule 3.1 | Organization |
| Schedule 3.2 | Capitalization |
| Schedule 3.4 | Consents and Approvals; No Violations |
| Schedule 3.6 | Absence of Certain Changes |
| Schedule 3.7 | No Undisclosed Liabilities |
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| Schedule 3.12 | Taxes |
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| Schedule 3.16 | Transactions with Affiliates |
| Schedule 5.1 | Interim Operations of the Company |
| Schedule 5.6 | Employee Benefits |

**SCHEDULE 3.1**

**Organization**

List of Subsidiaries:

Arkansas & Memphis Railway Bridge and Terminal Company
The Denver and Rio Grande Western Railroad Company
IC, Inc.
Montwood Corporation
Pacific Fruit Express Company
Pacific Motor Transport Company
PS Technology, Inc.
Rio Grande Holding, Inc.
Rio Grande Land Company
Rio Grande Receivables, Inc.
St. Louis Southwestern Railway Company
Southern Pacific Asset Management Company
Southern Pacific Equipment Company
Southern Pacific Fleet Acquisition Company
Southern Pacific International, Inc,
Southern Pacific Land Corporation
Southern Pacific Marine Transport, Inc.
Southern Pacific Mexico, S.A. de C.V.
Southern Pacific Motor Trucking Company
Southern Pacific Transportation Company
Southern Pacific Warehouse Company
SP Environmental Systems, Inc.
SP Environmental Waste Systems, Inc.
SPCSL Corp.
Transportation Service Systems, Inc.

**SCHEDULE 3.2(a)**
**Capitalization**

- Voting Debt - St. Louis Southwestern Railway Company (SSW) Preference Shares outstanding under the Redeemable Preference Share Agreements, one dated November 24, 1982 and one dated September 29, 1980, between SSW and the United States of America, Federal Railroad Administration, as amended prior to the Effective Time.

- Contractual Obligations - SSW Preference Shares (Series A and Series B) are subject to mandatory redemption as described in note 7 to the Company's financial statements contained in the Company's 1994 Annual Report.

Contractual Obligations to provide funds —

- Investments constituting any Railroad Joint Venture or Real Estate Joint Venture defined below on a ratable basis.

- Investments relating to the Arid Lands Company Memorandum of Understanding dated October 11, 1991 among Western Waste Industries, Inc., SP Environmental Systems, Inc., Western/SP Venture and Gold Fields Mining Company relating to the haulage and disposal of trash from the Los Angeles area.

Definitions:

"Railroad Joint Venture" means a joint venture (whether structured as a corporation, partnership or other entity) in which the Company or any of its Subsidiaries now or hereafter has an interest that is operated in the ordinary course of business solely or primarily for the joint ownership or development by the Company or such Subsidiary and the other participants in such joint venture involving terminal railroads, rail lines, terminals, bridges and other rail-related facilities, or railroad operations and related activities, customarily used in or directly associated with the business of Class I Railroads, for a primarily operational (rather than financial) purpose.

"Real Estate Joint Venture" means a joint venture (whether structured as a corporation, partnership or other entity) in which the Company or a Subsidiary now or hereafter has an interest that is operated by the Company or one of its Subsidiaries in the ordinary course of business solely or primarily to hold, own, develop, sell or otherwise dispose of real property and improvements thereon and transit corridors of the Company and it Subsidiaries.

## SCHEDULE 3.2(b)

### Capitalization

Subsidiaries not wholly-owned, directly or indirectly:

- St. Louis Southwestern Railway Company, a Missouri corporation (99.9%)
- Arkansas & Memphis Railway Bridge and Terminal Company (66.66%)

## SCHEDULE 3.4

### Consents and Approvals; No Violations

- The merger provision (Section 5.01) of the Indenture dated as of August 15, 1993 for the Company's 9 3/8% Senior Notes due 2005 contains certain conditions that must be complied with as of the Effective Time of the Merger

## SCHEDULE 3.6

### Absence of Certain Changes

- None (other than as disclosed on the June 30, 1995 condensed unaudited financial statements heretofore delivered to Parent)

## SCHEDULE 3.7

## No Undisclosed Liabilities

- None

## SCHEDULE 3.9

## Employee Benefit Plans; ERISA

(See Attached)

## Schedule 3.9

## General Disclaimer of Materiality and Company Abbreviation Key

**The following schedules contain information about the Benefit Plans. They do not, however, determine or address whether or not any of the matters disclosed are material.**

**Company abbreviation key:**

| | |
|---|---|
| SPRC: | Southern Pacific Rail Corporation |
| SPT: | Southern Pacific Transportation Company |
| SSW: | St. Louis Southwestern Railway Company |
| SPCSL: | SPCSL Corp. |
| PFE: | Pacific Fruit Express Company |
| PMT: | Pacific Motor Transport Company |
| SPMT: | Southern Pacific Motor Trucking Company [formerly named: Pacific Motor Trucking Company] |
| DRGW: | The Denver and Rio Grande Western Railroad Company |
| SPEv: | SP Environmental Systems, Inc. |

## Schedule 3.9(a)(i)

## List of Benefit Plans

**Multiemployer Plans**

| PIN | FYE | Name | Description/covered group |
|---|---|---|---|
| 501 | 12/31 | Allied Services Division Welfare Fund | Medical and dental [life?] for Transportation Communication Union ["TCU"] agreement employees at SPT's ICTF facility |
| 501 | 12/31 | Railroad Employees National Health and Welfare Plan | Medical, life ($10,000 active and $2,000 retired), and AD&D ($8,000) coverage for rail agreement employees (other than DRGW in hospital association, ICTF TCU group, SPT's ARTE group (but ARTE will be in here, starting October 1995) and "grandfathered" dispatchers, yardmasters and mechanical supervisors in SPRC plans) ["Travelers GA-23000", but actually with MetraHealth and others] |
| 502 | 12/31 | The Maintenance of Way Employees Supplemental Sickness Benefit Plan | Short term disability coverage for maintenance of way rail agreement employees [Benefit Trust Life BTL 7000] |
| 505 | 12/31 | The Railroad Employees National Dental Plan | Dental coverage for rail agreement employees (other than DRGW in hospital association, ICTF TCU group, SPT's ARTE group (but ARTE will be in here, starting October 1995) and "grandfathered" dispatchers, yardmasters and mechanical supervisors in SPRC plans) [Aetna GP-12000] |
| 506 | 12/31 | The Railroad Employees National Early Retirement Major Medical Benefit Plan | Bridge to Medicare early retirement medical coverage for qualifying rail agreement employees (other than DRGW in hospital association, ICTF TCU group, SPT's ARTE group (but ARTE will be in here, starting October 1995) and "grandfathered" dispatchers, yardmasters and mechanical supervisors in SPRC plans) ["Travelers GA-46000," but actually with MetraHealth] |

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|---|---|---|---|
| 508 | 12/31 | The Supplemental Sickness Benefit Plan Covering Railroad Shop Craft and Signal Employees | Short term disability coverage for shop craft and signal rail agreement employees [Provident R-5000] |
| | | | |
| | | | |
| | | Central States Health and Welfare and Pension Plans | Retirement and medical plans that used to cover certain agreement employees of SPMT: SPMT completely withdrew in 1993 -- see item "3" of Schedule 3.9(e). |
| | | Western Conference of Teamsters Health and Welfare and Pension Plans | Retirement and medical plans that used to cover certain agreement employees of SPMT: SPMT completely withdrew in 1994 -- see item "4" of Schedule 3.9(e). |

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**Single employer (including controlled group) plans**

| PIN | Sponsor | FYE | Name | Description/covered groups |
|---|---|---|---|---|
| 001 | SPEv | 12/31 | Industrial Compliance 401(k) Thrift Plan | Defined contribution plan covering SP Environmental and its subsidiaries' employees |
| 001 | SPRC | 12/31 | Southern Pacific Rail Corporation Pension Plan | Defined benefit plan covering nonunion employees of SPRC and subsidiaries, other than SP Environmental group; also covers certain "grandfathered" agreement yardmasters, dispatchers, and mechanical supervisors |
| 003 | SPRC | 12/31 | Southern Pacific Rail Corporation Thrift Plan | Defined contribution plan covering nonunion employees of SPRC and subsidiaries, other than SP Environmental group; also covers certain "grandfathered" agreement yardmasters, dispatchers, and mechanical supervisors |
| 008 | SPMT | 12/31 | PMT-BRAC Clerical Employees Pension Plan | Defined benefit pension plan covering agreement clerical employees; there are no current active covered employees. |
| 009 | SPT | 12/31 | Southern Pacific Savings Plan for the Brotherhood of Locomotive Engineers, United Transportation Union, and American Train Dispatchers Department – BLE | Defined contribution plan for participating agreement employees (excluding any "grandfathered" into SPRC plans) of BLE (system-wide), UTU (SPT and SSW), ARTE (technical employees), BMWE (maintenance of way – system-wide), TCU at ICTF on SPT, ATDD (dispatchers), WRSA (yardmasters – system-wide), Signalmen (system-wide), Allied Services Division/TCU (clerks – SPT, SSW, DRGW, and PFE) |
| | | | | |
| | SPT | 12/31 | Southern Pacific Transportation Company Supplemental Retirement Plan | IRC section 415 excess plan; frozen; only two persons, both in pay status, have benefits |
| | SPT | | Contractual supplemental executive retirement plans/arrangements | See listings; generally part of employment agreements. |
| | SPT | | Harriman Plan | Pre-ERISA plan |
| | DRGW | | DRGW Widows Plan | Pre-ERISA plan |
| | | | | |
| 501 | | 12/31 | Rio Grande Hospital Association Plan | Medical for certain DRGW union employees done by a pre-Taft-Hartley VEBA controlled by the unions |

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| 502 | SPT | 8/31 | Southern Pacific Transportation Company Group Disability Insurance for Employees represented by the American Railway Supervisors Association [supervisors], American Train Dispatchers Association [dispatchers], and Western Railway Supervisors Association [yardmasters] | Short term disability coverage. Policy nos. Provident R-415, R-415-B, and R-415-E. |
| 508 | SPT | 6/30 | Southern Pacific Transportation Company (Pacific Lines) Group Insurance Plan for Employees represented by the United Transportation Union (Switchmen) | Employee life ($10,000), dependent life ($5,000), and short term disability coverage for UTU switchmen on SPT's Western Lines. Provident policy nos. R-445-A and R-605. |
| 509 | PFE | 12/31 | Pacific Fruit Express Life Insurance Plan | Voluntary employee and retiree life, partially paid by the company: agreement employees only. CIGNA is the insurer. |
| 511 | SPT | 12/31 | Southern Pacific Life Insurance Plan 2000-G | Voluntary employee and retiree life, partially paid by company: agreement employees only. Metropolitan is the insurer, policy no. 2000-G. |
| 513 | SPT | 1/31 | Southern Pacific Group Insurance | Short term disability coverage for UTU employees on SPT's Eastern Lines and on the SSW. Travelers policy no. GA-521807 [business now owned by Metropolitan] |
| 549 | SPMT | 4/30 | SPMT Group Insurance | Voluntary employee and retiree life, partially paid by company: agreement employees only. CIGNA and Metropolitan are the insurers. |
| 550 | PMT | 12/31 | Pacific Motor Transport Non-Agreement Severance Policy | Severance benefit plan; unfunded; paid from general assets; covering fewer than 100 employees. |
| 550 | SPMT | 12/31 | Southern Pacific Motor Trucking Company Non-Agreement Severance Policy | Severance benefit plan; unfunded; paid from general assets; covering fewer than 100 employees. |
| 559 | SPT | 12/31 | Southern Pacific Educational Reimbursement Plan | Suspended since 1993. (Not an ERISA plan) |
| 560 | SPRC | 12/31 | Southern Pacific Rail Corporation Benefit Choices Plan | Section 125 "shell" for medical, dependent care, and life plans. Covers nonagreement employees of SPRC and all subsidiaries, plus "grandfathered" agreement dispatchers, yardmasters, and mechanical supervisors. |

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| 562 | SPRC | 12/31 | Southern Pacific Rail Corporation Long Term Disability Plan | Self-insured plan. UNUM is the administrator. Covers nonagreement employees of SPRC and all subsidiaries, plus "grandfathered" agreement dispatchers, yardmasters, and mechanical supervisors. |
| 564 | SPRC | 12/31 | Southern Pacific Rail Corporation Life, Personal Accident, and Business Travel Accident Insurance Plan | Provides life, dependent life, personal accident, and business travel accident coverage to nonagreement employees of SPRC and all subsidiaries, plus "grandfathered" agreement dispatchers, yardmasters, and mechanical supervisors. Also provides (until September 30, 1995) a life insurance coverage to ARTE employees. Metropolitan and CIGNA are the insurers. |
| 565 | SPRC | 12/31 | Southern Pacific Rail Corporation Medical, Dental, and Health Care Reimbursement Plan | Provides medical, dental and medical spending account coverage to nonagreement employees of SPRC and all subsidiaries, plus "grandfathered" agreement dispatchers, yardmasters, and mechanical supervisors Also provides medical and dental coverage to ARTE employees (until September 30, 1995), and medical coverage to certain former NWP agreement clerks (until age 65) and OURD agreement employees (until age 65) The plans are primarily self-insured with CIGNA as the administrator, but HMO coverage for a number of participants is through Kaiser, there is some insured Medicare risk and managed dental through CIGNA, and Value Behavioral Health administers most of the mental health/substance abuse benefits (self-insured by SPRC). |
| 568 | SPRC | 12/31 | Southern Pacific Rail Corporation Dependent Day Care Reimbursement Account Plan | Not an ERISA Plan. IRC section 129 plan. Covers nonagreement employees of SPRC and all subsidiaries, plus "grandfathered" agreement dispatchers yardmasters, and mechanical supervisors |
| 573 | DRGW | 12/31 | Rio Grande Educational Reimbursement Plan | Suspended since 1993. (Not an ERISA plan). |
| 574 | SPT | 12/31 | BLE Group Insurance | Short term disability insurance for BLE-covered employees system-wide [SPT, DRGW, SSW, SPCSL]. Union Central Life policy no. GH 8483. |

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| 575 | SPT | 12/31 | Wage continuation/injured employee assistance program | Provides medical coverage on a self-insured basis to cover the uninsured medical costs of on-the-job injuries for rail agreement employees. |
| 576 | SPT | 12/31 | Southern Pacific Lines Non-Agreement Severance Benefit Plan (8-25-93 rev.) | Severance benefit plan; in ERISA sense is unfunded and paid from general assets; covers non-union employees of the rail companies; being expanded to the non-rail companies that do not have their own severance programs in place. |
| | | | Severance Agreements | December 30, 1992, and January 4, 1993, memoranda from Tom Matthews establishing a minimum severance benefit of one year's severance for executives who are corporate officers and of six months salary for other executives with salaries in excess of $100,000, if terminated without cause. (Employees with 20 or more years of service would receive one year of severance pay under the general non-agreement severance plan, and would not be limited to six months.) |
| | SPT | 12/31 | Union severance arrangements | Various severance plans for various rail union groups: Provided as required by labor protection law/ICC rulings (New York Dock ) and per various collective bargaining agreements. |
| 580 | SPT | 12/31 | Southern Pacific Group Insurance | Short term disability coverage for UTU trainmen employees on SPT's Western Lines. Travelers policy no. GA-521815 [business now owned by Metropolitan]. New plan in 1994. |
| | SPT | | Health and welfare for Mexican employees | Health and welfare (medical/life) benefits for Mexican employees in Mexico are provided through local insurance contracts. |
| | | | SP Environmental Systems, Inc. Growth Share Plan, and first amendment thereto dated April 25, 1995. | Incentive compensation plan. |
| | | | Distribution Services Incentive Program | Line Marketing & Sales employees may earn 1.25% of annual salary per quarter by meeting revenue goals. |
| | | | Southern Pacific Lines Real Estate Enterprise Special Compensation Plan | Provides an annual bonus pool up to a maximum of $600,000 if combined gross revenue targets are achieved. |

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EXHIBIT A

IRREVOCABLE PROXY

The undersigned hereby revokes any previous proxies and appoints Union Pacific Corporation ("Parent"), Drew Lewis and Richard K. Davidson, and each of them, with full power of substitution, as attorney and proxy of the undersigned to attend any and all meetings of shareholders of Southern Pacific Rail Corporation, a Delaware corporation (the "Company") (and any adjournments or postponements thereof), to vote all shares of Common Stock, $.001 par value, of the Company that the undersigned is then entitled to vote, and to represent and otherwise to act for the undersigned in the same manner and with the same effect as if the undersigned were personally present, with respect to all matters specified in Section 3(a) of the Shareholders Agreement (the "Shareholders Agreement"), dated as of August 3, 1995, by and among Parent, UP Acquisition Corporation, the undersigned and [other Shareholders]. Capitalized terms used and not defined herein have the respective meanings ascribed to them in, or as prescribed by, the Shareholders Agreement.

This proxy shall be deemed to be a proxy coupled with an interest and is irrevocable during the Voting Period and has been granted pursuant to Section 3(b) of the Shareholders Agreement.

The undersigned authorizes such attorney and proxy to substitute any other person to act hereunder, to revoke any substitution and to file this proxy and any substitution or revocation with the Secretary of the Company.

Dated: _____, 1995

[Shareholder]

By: _____
Name:
Title:

**MSLEF SHAREHOLDER AGREEMENT**

AGREEMENT, dated as of August 3, 1995, by and among Union Pacific Corporation, a Utah corporation ("Parent"), UP Acquisition Corporation, a Delaware corporation and an indirect wholly owned subsidiary of Parent ("Purchaser"), and The Morgan Stanley Leveraged Equity Fund II, L.P., a Delaware limited partnership (the "Shareholder").

W I T N E S S E T H:

WHEREAS, simultaneously with the execution of this Agreement, Parent, Purchaser, Union Pacific Railroad Company, a Utah corporation ("UPRR"), and Southern Pacific Rail Corporation, a Delaware corporation (the "Company"), have entered into an Agreement and Plan of Merger (as such Agreement may hereafter be amended from time to time, the "Merger Agreement"), pursuant to which Purchaser has agreed, among other things, to commence a cash tender offer (the "Offer") to purchase up to 39,034,471 shares of common stock, $.001 par value, of the Company (the "Company Common Stock") and the Company will be merged with and into UPRR (the "Merger");

WHEREAS, as of the date hereof, Shareholder is the record and beneficial owner of, and has the sole right to vote and dispose of, an aggregate of 13,341,580 shares (the "Shares") of Company Common Stock; and

WHEREAS, as an inducement and a condition to its entering into the Merger Agreement and the Ancillary Agreements (as defined in the Merger Agreement), and incurring the obligations set forth therein, including the Offer and the Merger, Parent has required that Shareholder agree, and Shareholder has agreed, to enter into this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the mutual premises, representations, warranties, covenants and agreements contained herein and in the Merger Agreement and the Ancillary Agreements, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Certain Definitions. Capitalized terms used and not defined herein have the respective meanings ascribed to them in the Merger Agreement. In addition, for purposes of this Agreement:

(a) "Affiliate" shall mean, with respect to any specified Person, any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. For purposes of this Agreement, with respect to the Shareholder, "Affiliate" shall not include the Company and the Persons that directly, or indirectly through one or more intermediaries, are controlled by the Company.

(b) "Beneficially Own" or "Beneficial Ownership" with respect to any securities shall mean having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), including pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that securities Beneficially Owned by the Shareholder shall include only those securities (including, without limitation, the Shares) with respect to which the Shareholder exercises direct voting and investment control and shall not include securities (other than those securities (including, without limitation, the Shares) with respect to which the Shareholder exercises direct voting and investment control) Beneficially Owned by any Affiliates of the Shareholder or any other Persons with whom the Shareholder would constitute a "group" within the meaning of Section 13(d) of the Exchange Act and the rules promulgated thereunder.

(c) "Company Voting Securities" shall mean any securities of the Company entitled, or which may be entitled, to vote generally in the election of directors and any securities convertible into or exercisable or exchangeable for such securities (whether or not subject to contingencies with respect to any matter or proposal submitted for the vote or consent of shareholders of the Company). For purposes of determining the percentage of Company Voting Securities Beneficially Owned by a Person, securities Beneficially Owned by any such Person that are convertible, exercisable or exchangeable for securities entitled to vote shall be deemed to be converted, exercised or exchanged and shall represent the number of securities of the Company entitled to vote into which such convertible, exercisable or exchangeable securities (disregarding for such purposes any restrictions on conversion, exercise or exchange) are then convertible, exchangeable or exercisable.

(d) "including" shall mean including without limitation.

(e) "Parent Voting Securities" shall mean any securities of Parent entitled, or which may be entitled, to vote generally in the election of directors and any securities convertible into or exercisable or exchangeable for such securities (whether or not subject to contingencies with respect to any matter or proposal submitted for the vote or consent of shareholders of Parent). For purposes of this Agreement, Parent Voting Securities shall not include Company Voting Securities. For purposes of determining the percentage of Parent Voting Securities Beneficially Owned by a Person, securities Beneficially Owned by any such Person that are convertible, exercisable or exchangeable for securities entitled to vote shall be deemed to be converted, exercised or exchanged and shall represent the number of securities of Parent entitled to vote into which such convertible, exercisable or exchangeable securities (disregarding for such purposes any restrictions on conversion, exercise or exchange) are then convertible, exchangeable or exercisable.

(f) "Person" shall mean an individual, corporation, partnership, joint venture, association, trust, unincorporated organization or other entity.

(g) "Transfer" shall mean, with respect to a security, the sale, transfer, pledge, hypothecation, encumbrance, assignment or disposition of such security or the Beneficial Ownership thereof, the offer to make such a sale, transfer or other disposition, and each agreement, arrangement or understanding, whether or not in writing, to effect any of the foregoing. As a verb, "Transfer" shall have a correlative meaning.

2. Tender of Shares. The parties agree that Shareholder may, but shall have no obligation to, tender (or cause the record owner of the Shares to tender), pursuant to and in accordance with the terms of the Offer, any or all of the Shares and any other shares of Company Common Stock hereafter Beneficially Owned by Shareholder. Shareholder hereby acknowledges and agrees that Parent's and Purchaser's obligation to accept for payment and pay for Shares in the Offer, including any Shares tendered by Shareholder, is subject to the terms and conditions of the Offer. The parties agree that Shareholder will, for all Shares tendered by Shareholder

in the Offer and accepted for payment and paid for by Purchaser, receive the same per Share consideration paid to other shareholders who have tendered into the Offer.

3. Voting of Company Common Stock; Irrevocable Proxy; No Acquisition of Additional Company Voting Securities.

(a) Shareholder hereby agrees that during the period commencing on the date hereof and continuing until the earlier of (x) the consummation of the Merger and (y) six months following the termination of the Merger Agreement in accordance with Section 7.1(c)(i) or 7.1(d)(i) thereof, and (z) upon the termination of the Merger Agreement in accordance with any provision of Section 7.1 other than Section 7.1(c)(i) or 7.1(d)(ii) (such period being referred to as the "Voting Period") at any meeting (whether annual or special, and whether or not an adjourned or postponed meeting) of the Company's shareholders, however called, or in connection with any written consent of the Company's shareholders, subject to the absence of a preliminary or permanent injunction or other final order by any United States federal court or state court barring such action, Shareholder shall vote (or cause to be voted) the Shares and all other Company Voting Securities that it Beneficially Owns, whether owned on the date hereof or hereafter acquired, (i) in favor of the Merger, the execution and delivery by the Company of the Merger Agreement and the approval and adoption of the Merger Agreement and the terms thereof and each of the other actions contemplated by the Merger Agreement, this Agreement and the Ancillary Agreements and any actions required in furtherance thereof and hereof; (ii) against any action or agreement that would (A) result in a material breach of any covenant, representation or warranty or any other obligation or agreement of the Company under the Merger Agreement or any of the Ancillary Agreements to which it is a party or of Shareholder under this Agreement or (B) in the judgement of Parent as communicated in writing to the Shareholder, impede, interfere with, delay, postpone, or adversely affect the Offer, the Merger or the transactions contemplated by the Merger Agreement, this Agreement and the Ancillary Agreements; and (iii) except as otherwise agreed to in writing in advance by Parent, against the following actions (other than the Merger and the transactions contemplated by the Merger Agreement, this Agreement and the Ancillary Agreements): (A) any extraordinary corporate transaction, such as a merger, consolidation or

other business combination involving the Company or any of its subsidiaries; (B) any sale, lease or transfer of a substantial portion of the assets or business of the Company or its subsidiaries, or reorganization, restructuring, recapitalization, special dividend, dissolution or liquidation of the Company or its subsidiaries; or (C) any change in the present capitalization of the Company including any proposal to sell a substantial equity interest in the Company or any of its subsidiaries. Shareholder shall not enter into any agreement, arrangement or understanding with any Person the effect of which would be inconsistent or violative of the provisions and agreements contained in this Section 3.

(b) At the request of Parent, Shareholder, in furtherance of the transactions contemplated hereby and by the Merger Agreement and the Ancillary Agreements, and in order to secure the performance by Shareholder of its duties under this Agreement, shall promptly execute and deliver to Purchaser an irrevocable proxy, in the form of Exhibit A hereto. Shareholder acknowledges and agrees that the proxy executed and delivered pursuant to this Section 3(b) shall be coupled with an interest, shall constitute, among other things, an inducement for Parent to enter into this Agreement, the Merger Agreement and the Ancillary Agreements to which it is a party, shall be irrevocable during the Voting Period and shall not be terminated by operation of law upon the occurrence of any event.

(c) Shareholder agrees that during the period commencing on the date hereof and continuing until the earlier of (x) the consummation of the Merger and (y) the termination of the Merger Agreement, Shareholder will not, and will cause its general partner not to, acquire, offer or propose to acquire, or agree to acquire, whether by purchase, tender or exchange offer, any Company Voting Securities.

4. Restrictions on Transfer, Proxies; No Solicitation.

(a) Shareholder shall not, during the Voting Period, directly or indirectly: (i) except as provided in Section 2 or this Section 4(a), Transfer to any Person any or all of the Company Voting Securities Beneficially Owned by the Shareholder; (ii) except as provided in Section 3(b) of this Agreement, grant any proxies or powers of attorney, deposit any such Company Voting Securities

into a voting trust or enter into a voting agreement, understanding or arrangement with respect to the Company Voting Securities; or (iii) take any action that would make any representation or warranty of Shareholder contained herein untrue or incorrect or would result in a breach by the Shareholder of its obligations under this Agreement or a breach by the Company of its obligations under the Merger Agreement or any of the Ancillary Agreements to which it is a party. Notwithstanding any provisions of this Agreement to the contrary, Shareholder may Transfer in the aggregate, following the consummation of the Offer and prior to the Effective Time, a portion of the Shares in the aggregate not greater than 10% of the Shares Beneficially Owned by the Shareholder immediately following the consummation of the Offer.

(b) Shareholder shall not, and shall cause its general partner not to, directly or indirectly, (i) initiate, solicit or encourage, or take any action to facilitate the making of, any offer or proposal which constitutes or is reasonably likely to lead to any Takeover Proposal (as defined in the Merger Agreement) of the Company or any Affiliate or any inquiry with respect thereto, or (ii) in the event of an unsolicited written Takeover Proposal for the Company or any Affiliate of the Company, engage in negotiations or discussions with, or provide any information or data to, any Person (other than Parent, any of its Affiliates or representatives) relating to any Takeover Proposal. Shareholder shall notify Parent and Purchaser orally and in writing of any such offers, proposals or inquiries relating to the purchase or acquisition by any Person of the Shares Beneficially Owned by the Shareholder (including, without limitation, the terms and conditions thereof and the identity of the Person making it), within 24 hours of the receipt thereof. Shareholder shall, and shall cause its general partner to, immediately cease and cause to be terminated all existing activities, discussions and negotiations, if any, with any parties conducted heretofore with respect to any Takeover Proposal relating to the Company, other than discussions or negotiations with Parent and its Affiliates.

(c) Shareholder will not, and will cause its general partner not to, directly or indirectly, make any public comment, statement or communication, or take any action that would otherwise require any public disclosure by Shareholder, Parent or any other Person, concerning the Merger, the Offer, the Spin-off (as described in

Section 5.4 of the Merger Agreement) and the other transactions contemplated by the Merger Agreement, this Agreement and the Ancillary Agreements, except for any disclosure (i) concerning the status of Shareholder as a party to such agreement, the terms thereof, and its beneficial ownership of Shares, required pursuant to Section 13(d) or Section 16 of the Exchange Act or (ii) required in the Schedule 14D-9 or the Proxy Statement/Prospectus.

(d) Notwithstanding the restrictions set forth in Section 4(b), any Person who is a director or officer of the Company may exercise his fiduciary duties in his capacity as a director or officer with respect to the Company, as opposed to taking action with respect to the direct or indirect ownership of any Shares, and no such exercise of fiduciary duties shall be deemed to be a breach of, or a violation of the restrictions set forth in, Section 4(b) and the Shareholder shall not have any liability hereunder for any such exercise of fiduciary duties by such Person in his capacity as a director and officer of the Company. Nothing in this Section 4(d) shall relieve or affect any of the Company's or its Affiliates' obligations under the Merger Agreement.

5. Representations and Warranties of Shareholder. Shareholder hereby represents and warrants to Parent and Purchaser as follows:

(a) Shareholder is a limited partnership duly organized and validly existing under the laws of the State of Delaware. Shareholder has all necessary power and authority to execute and deliver this Agreement and perform its obligations hereunder. The execution and delivery by Shareholder of this Agreement and the performance by Shareholder of its obligations hereunder have been duly and validly authorized by all required partnership action, and no other proceedings or actions on the part of Shareholder are necessary to authorize the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

(b) This Agreement has been duly and validly executed and delivered by Shareholder and constitutes the valid and binding agreement of Shareholder, enforceable against Shareholder in accordance with its terms except to the extent (i) such enforcement may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors' rights and (ii) the remedy of specific performance and injunctive and other forms of equitable

relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(c) Shareholder is the sole record holder and Beneficial Owner of 13,341,580 Shares, and has good and marketable title to all of such Shares, free and clear of all choate liens, claims, options, proxies, voting agreements and perfected security interests (other than to the extent created by either or both of the Corporate Matters Agreement (the "Corporate Matters Agreement") and the Shareholder Agreement, each dated as of August 1, 1993, among the Company, TAC, the Shareholder and certain other parties thereto, each of which Shareholder agrees to terminate as of the Effective Time). The Shares constitute all of the capital stock of the Company Beneficially Owned by Shareholder, and except for the Shares, Shareholder does not Beneficially Own or have any right to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing) any Company Voting Securities. Shareholder has sole power to vote and to dispose of the Shares, and sole power to issue instructions with respect to the Shares to the extent appropriate in respect of the matters set forth in this Agreement, sole power to demand appraisal rights and sole power to agree to all of the matters set forth in this Agreement, in each case with respect to all of the Shares, with no limitations, qualifications or restrictions on such rights, subject to applicable securities laws and the terms of this Agreement. Shareholder does not beneficially own or have any right to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing), except pursuant to the Merger, any Parent Voting Securities.

(d) Except for filings, authorizations, consents and approvals as may be required under, and other applicable requirements of, the ICA, the HSR Act and the Exchange Act (i) no filing with, and no permit, authorization, consent or approval of, any state or federal governmental body or authority is necessary for the execution of this Agreement by Shareholder and the consummation by Shareholder of the transactions contemplated hereby and (ii) none of the execution and delivery of this Agreement by Shareholder, the consummation by Shareholder of the transactions contemplated hereby or compliance by Shareholder with any of the provisions hereof

shall (A) conflict with or result in any breach of Shareholder's agreement of limited partnership or any agreement of partnership of the general partner, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third-party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which Shareholder is a party or by which Shareholder or any of its properties or assets (including the Shares) may be bound, or (C) violate any order, writ, injunction, decree, judgment, statute, rule or regulation applicable to Shareholder or any of its properties or assets. To the best knowledge of Shareholder, no litigation is pending or threatened involving Shareholder or the Company relating in any way to this Agreement, the Merger Agreement, the Ancillary Agreements, or any transactions contemplated hereby or thereby.

(e) Shareholder understands and acknowledges that Parent is entering into, and causing the Purchaser to enter into, the Merger Agreement and the Ancillary Agreements, and is incurring the obligations set forth therein, in reliance upon Shareholder's execution and delivery of this Agreement.

(f) Except for Morgan Stanley & Co. Incorporated, no broker, investment banker, financial adviser or other person is entitled to any broker's, finder's, financial adviser's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of Shareholder.

(g) Shareholder will make such representations as may reasonably be requested by Parent, and in such form as may reasonably be requested by Parent, for use in connection with the request by Parent that the Internal Revenue Service issue a private letter ruling with respect to the tax consequences of the Spin-off.

6. Representations and Warranties of Parent and Purchaser. Parent and Purchaser hereby represent and warrant to Shareholder as follows:

(a) Parent is a corporation duly organized and validly existing under the laws of the State of Utah, and Purchaser is a corporation duly organized and validly existing under the laws of the State of Delaware and each of them is in good standing under the laws of the state of its incorporation. Parent and Purchaser have all necessary corporate power and authority to execute and deliver this Agreement and perform their respective obligations hereunder. The execution and delivery by Parent and Purchaser of this Agreement and the performance by Parent and Purchaser of their respective obligations hereunder have been duly and validly authorized by the Board of Directors of each of Parent and Purchaser and no other corporate proceedings on the part of Parent or Purchaser are necessary to authorize the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

(b) This Agreement has been duly and validly executed and delivered by Parent and Purchaser and constitutes a valid and binding agreement of each of Parent and Purchaser, enforceable against each of them in accordance with its terms except to the extent (i) such enforcement may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors rights and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(c) Except for filings, authorizations, consents and approvals as may be required under, and other applicable requirements of, the ICA (i), no filing with, and no permit, authorization, consent or approval of, any state or federal public body or authority is necessary for the execution of this Agreement by Parent or Purchaser and the consummation by Parent or Purchaser of the transactions contemplated hereby and (ii) none of the execution and delivery of this Agreement by Parent or Purchaser, the consummation by Parent or Purchaser of the transactions contemplated hereby or compliance by Parent or Purchaser with any of the provisions hereof shall (A) conflict with or result in any breach of the certificate of incorporation or by-laws of Parent or Purchaser, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note,

loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which Parent or Purchaser is a party or by which Parent or Purchaser or any of their respective properties or assets may be bound, or (C) violate any order, writ, injunction, decree, judgment, statute, rule or regulation applicable to Parent or Purchaser or any of their respective properties or assets. To the best knowledge of Parent, no litigation is pending or threatened involving Parent or Purchaser relating in any way to this Agreement, the Merger Agreement, the Ancillary Agreements, or any transactions contemplated hereby or thereby.

(d) Except for CS First Boston Corporation, no broker, investment banker, financial adviser or other person is entitled to any broker's, finder's, financial adviser's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of Parent or Purchaser.

7. Further Assurances.

(a) From time to time, at the other party's request and without further consideration, each party hereto shall execute and deliver such additional documents and take all such further lawful action as may be necessary or desirable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

(b) Shareholder agrees that, prior to the consummation of the Offer, it will enter into an amendment to the existing Registration Rights Agreement, forming Exhibit A to the Corporate Matters Agreement, by and among the Company and the parties named therein, which amendment shall be reasonably satisfactory to Parent and Shareholder, in order to permit Parent to freely exercise its "piggyback" registration rights in accordance with the terms and provisions of the Registration Rights Agreement being entered into by the Company, Parent and Purchaser in connection with the execution of the Merger Agreement.

8. Stop Transfer; Legend.

(a) Shareholder agrees with and covenants to Parent that Shareholder shall not request that the Company or Parent, as the case may be, register the transfer

(book-entry or otherwise) of any certificated or uncertificated interest representing any of the securities of the Company or of Parent, as the case may be, unless the Shareholder represents to the Company that such transfer is made in compliance with this Agreement.

(b) Shareholder shall promptly surrender to the Company all certificates representing the Shares, and other Company Voting Securities acquired by Shareholder or its Affiliates after the date hereof, and the Company shall place the following legend on such certificates:

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A SHAREHOLDER AGREEMENT, DATED AS OF AUGUST 3, 1995 BY AND AMONG UP ACQUISITION CORPORATION, UNION PACIFIC CORPORATION AND THE MORGAN STANLEY LEVERAGED EQUITY FUND II, L.P. WHICH, AMONG OTHER THINGS, RESTRICTS THE TRANSFER AND VOTING THEREOF."

9. Termination. Except as otherwise provided in this Agreement, this Agreement shall terminate at the end of the Voting Period.

10. Miscellaneous.

(a) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(b) Shareholder agrees that this Agreement and the obligations hereunder shall attach to any Company Voting Securities that may become Beneficially Owned by Shareholder.

(c) All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, and each of Parent and Purchaser, on the one hand, and Shareholder, on the other hand, shall indemnify and hold the other harmless from and against any and all claims, liabilities or obligations with respect to any brokerage fees, commissions or finders' fees asserted by any person on the basis of any act or statement alleged to have been made by such party or its Affiliates.

(d) Except as provided in the Agreement, this Agreement shall not be assigned by operation of law or otherwise without the prior written consent of the other party, provided that Parent may assign, in its sole discretion, its rights and obligations hereunder to any direct or indirect wholly owned subsidiary of Parent, but no such assignment shall relieve Parent of its obligations hereunder if such assignee does not perform such obligations.

(e) This Agreement may not be amended, changed, supplemented, or otherwise modified or terminated, except upon the execution and delivery of a written agreement executed by each of the parties hereto. The parties may waive compliance by the other parties hereto with any representation, agreement or condition otherwise required to be complied with by such other party hereunder, but any such waiver shall be effective only if in writing executed by the waiving party.

(f) All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly received if given) by hand delivery or telecopy (with a confirmation copy sent for next day delivery via courier service, such as FedEx), or by any courier service, such as FedEx, providing proof of delivery. All communications hereunder shall be delivered to the respective parties at the following addresses:

If to Shareholder:

The Morgan Stanley Leveraged
Equity Fund II, L.P.
1221 Avenue of the Americas
New York, New York 10024
Attn: Frank V. Sica
Telephone: 212-703-7761
Telecopy: 212-703-6422

copy to:

Peter R. Vogelsang, Vice President
Morgan Stanley & Co. Incorporated
1221 Avenue of the Americas
New York, New York 10024
Telephone: 212-703-5792
Telecopy: 212-703-6422

If to Parent or
Purchaser:

Union Pacific Corporation
Martin Tower
Eighth & Eaton Avenue
Bethlehem, Pennsylvania 18018
Attn: Carl. W. von Bernuth
Telephone: (610) 861-3200
Telecopy: (610) 861-3111

copy to:

Skadden, Arps, Slate,
Meagher & Flom
919 Third Avenue
New York, New York 10022
Attention: Paul T. Schnell, Esq.
Telephone No.: (212) 735-3000
Telecopy No.: (212) 735-2001

or to such other address as the person to whom notice is given may have previously furnished to the others in writing in the manner set forth above.

(g) Whenever possible, each provision or portion of any provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

(h) Each of the parties hereto recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore each of the parties hereto agrees that in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

(i) All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party. The failure of any party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by any other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

(j) This Agreement is not intended to be for the benefit of, and shall not be enforceable by, any person or entity who or which is not a party hereto.

(k) This Agreement shall be governed and construed in accordance with the laws of the State of New York, without giving effect to the principles of conflicts of law thereof.

(l) The representations and warranties made herein shall survive through the term of this Agreement.

(m) Each party hereby irrevocably submits to the non-exclusive original jurisdiction of the Supreme Court in the State of New York or the Federal District Court for the Southern District of New York in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding may be brought in such court (and waives any objection based on forum non conveniens or any other objection to venue therein); provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (m) and shall not be deemed to be a general submission to the jurisdiction of said Courts or in the State of New York other than for such purposes. Each party hereto hereby waives any right to a trial by jury in connection with any such action, suit or proceeding.

(n) The descriptive headings used herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(o) This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which, taken together, shall constitute one and the same Agreement.

IN WITNESS WHEREOF, Parent, Purchaser and Shareholder have caused this Agreement to be duly executed as of the day and year first above written.

UNION PACIFIC CORPORATION

By: _____
Name:
Title:

UP ACQUISITION CORPORATION

By: _____
Name:
Title:

THE MORGAN STANLEY LEVERAGED EQUITY FUND II, L.P.

By: MORGAN STANLEY LEVERAGED EQUITY FUND II, INC.

By: _____
Name:
Title:

The undersigned agrees to be bound by and comply with the provisions of Section 8(b) of this Agreement.

SOUTHERN PACIFIC RAIL CORPORATION

By: _____
Name:
Title:

EXHIBIT A

IRREVOCABLE PROXY

The undersigned hereby revokes any previous proxies and appoints Union Pacific Corporation ("Parent"), Drew Lewis and Richard K. Davidson, and each of them, with full power of substitution, as attorney and proxy of the undersigned to attend any and all meetings of shareholders of Southern Pacific Rail Corporation, a Delaware corporation (the "Company") (and any adjournments or postponements thereof), to vote all shares of Common Stock, $.001 par value, of the Company that the undersigned is then entitled to vote, and to represent and otherwise to act for the undersigned in the same manner and with the same effect as if the undersigned were personally present, with respect to all matters specified in Section 3(a) of the Shareholder Agreement (the "Shareholder Agreement"), dated as of August 3, 1995, by and among Parent, UP Acquisition Corporation, and the undersigned. Capitalized terms used and not defined herein have the respective meanings ascribed to them in, or as prescribed by, the Shareholder Agreement.

This proxy shall be deemed to be a proxy coupled with an interest and is irrevocable during the

Voting Period and has been granted pursuant to Section 3(b) of the Shareholder Agreement.

The undersigned authorizes such attorney and proxy to substitute any other person to act hereunder, to revoke any substitution and to file this proxy and any substitution or revocation with the Secretary of the Company.

Dated: _____

THE MORGAN STANLEY LEVERAGED EQUITY FUND II, L.P.

By: MORGAN STANLEY LEVERAGED EQUITY FUND II, INC.

By: _____
Name:
Title:

**REGISTRATION RIGHTS AGREEMENT**

REGISTRATION RIGHTS AGREEMENT, dated as of August 3, 1995, by and among Union Pacific Corporation, a Utah corporation ("Parent"), The Anschutz Corporation, a Kansas corporation ("TAC"), and Anschutz Foundation, a Colorado not-for-profit corporation (the "Foundation" and, together with TAC, the "Holders").

W I T N E S S E T H:

WHEREAS, simultaneously with the execution of this Agreement, Parent, Union Pacific Railroad Company, a Utah corporation and an indirect wholly owned subsidiary of Parent ("UPRR"), UP Acquisition Corporation, a Delaware corporation and a direct wholly owned subsidiary of UPRR ("Purchaser"), and Southern Pacific Rail Corporation, a Delaware corporation (the "Company"), have entered into an Agreement and Plan of Merger (as such Agreement may be amended from time to time, the "Merger Agreement"), pursuant to which, among other things, Purchaser has agreed to commence a cash tender offer (the "Offer") to purchase up to 39,034,471 shares of common stock, $.001 par value, of the Company ("Company Common Stock") and the Company will be merged with and into UPRR (the "Merger");

WHEREAS, pursuant to the Merger, the Holders will receive shares of Common Stock, par value $2.50 per share, of Parent ("Parent Common Stock");

WHEREAS, Parent, Purchaser and the Holders are simultaneously herewith entering into a Shareholders Agreement (the "Shareholders Agreement"), pursuant to which, among other things, the Holders have agreed to vote their shares of Company Common Stock in favor of the Merger and to abide by certain agreements relating to the shares of Parent Common Stock to be received in the Merger;

WHEREAS, as an inducement and a condition to their entering into the Shareholders Agreement and voting for the Merger, the Holders have required that Parent agree, and Parent has agreed, to enter into this Registration Rights Agreement providing, among other things, for the registration under the Securities Act of 1933, as

amended (the "Securities Act"), of shares of Parent Common Stock to be disposed of by the Holders;

NOW, THEREFORE, in consideration of the foregoing and the mutual promises, representations, warranties, covenants and agreements contained herein and in the Shareholders Agreement, the parties hereto, intending to be legally bound hereby, agree as follows:

## ARTICLE I

## DEFINITIONS

SECTION 1.1. Definitions. Capitalized terms used and not defined herein have the respective meanings ascribed to them in the Merger Agreement. In addition, for purposes of this Agreement:

(a) "Affiliate" shall mean, with respect to any specified Person, any Person that, directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. For the purposes of this definition, "control" (including, with correlative meanings, the term "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

(b) "Commission" shall mean the Securities and Exchange Commission.

(c) "Demand Registration" shall mean a Demand Registration as defined in Section 2.1.

(d) "Person" shall mean an individual, corporation, partnership, joint venture, association, trust, unincorporated organization or other entity.

(e) "Piggy-Back Registration" shall mean a Piggy-Back Registration as defined in Section 2.2.

(f) "Registrable Securities" shall mean the Parent Common Stock received by the Holders pursuant to

the Merger until (i) a registration statement covering such security has been declared effective by the Commission and it has been disposed of pursuant to such effective registration statement, (ii) it has been sold under circumstances in which all of the applicable conditions of Rules 145 and 144 or Rule 144A (or any similar provisions then in force) under the Securities Act are met, or (iii) it has been otherwise transferred and Parent has delivered a new certificate or other evidence of ownership for it not bearing a restrictive legend and it may be resold without subsequent registration under the Securities Act.

(g) "Selling Holder" means a Holder who is selling Registrable Securities pursuant to a registration statement under the Securities Act.

(h) "Termination Date" means the seventh anniversary of the Closing Date (as defined in the Merger Agreement).

(i) "Underwriter" means a securities dealer which purchases any Registrable Securities as principal and not as part of such dealer's market-making activities.

## ARTICLE II

## REGISTRATION RIGHTS

SECTION 2.1. Demand Registrations. (a) Request for Registration. Any Holder may make, at any time or from time to time after the Closing Date, subject to the terms herein and until and including the Termination Date of this Agreement, a written request for registration under the Securities Act of all or part of the Registrable Securities then held by such Holder (a "Demand Registration"); provided, that Parent shall not be obligated to effect more than three Demand Registrations for the Holders in total pursuant to this Agreement. Such request will specify the number of Registrable Securities proposed to be sold by the Holder(s) and will also specify the intended method of disposition thereof. Parent will give written notice of such registration request to all the Holders of the Registrable Securities and, subject to Section 2.3, include in such registration

all such Registrable Securities with respect to which Parent has received written requests for inclusion therein within 20 business days after receipt by the Holders of Parent's notice. Each request will also specify the number of Registrable Securities to be registered and the intended disposition thereof.

(b) Effective Registration. A Demand Registration will not count as a Demand Registration unless and until it has become effective.

(c) Underwriting of Demand Registrations. At the election of the Holders, the offering of such Registrable Securities pursuant to such Demand Registration shall be in the form of an underwritten offering. The Holder requesting the Demand Registration (with the consent of Parent, not to be unreasonably withheld) shall select the book-running managing Underwriter in connection with such offering and any additional investment bankers and managers to be used in connection with the offering. To the extent 10% or more of the Registrable Securities so requested to be registered in a Demand Registration are excluded from the offering in accordance with Section 2.3, there shall be provided one additional Demand Registration under Section 2.1(a).

SECTION 2.2. Piggy-Back Registration. If Parent proposes to file a registration statement under the Securities Act with respect to an offering by Parent for its own account or for the account of any of its respective securityholders of any class of equity security (other than a registration statement on Form S-4 or S-8 (or any substitute form that may be adopted by the Commission) or filed in connection with an exchange offer or offering of securities solely to Parent's existing securityholders or a registration statement filed by Parent to comply with its obligations under Demand Registrations pursuant to Section 2.1 hereof), then Parent shall give written notice of such proposed filing to the Holders of Registrable Securities as soon as practicable (but in no event less than 10 days before the anticipated filing date), and such notice shall offer such Holders the opportunity to register such number of shares of Registrable Securities as each such Holder may request (a "Piggy-Back Registration"). Parent shall use its best efforts to cause the managing Underwriter or Underwriters of a proposed underwritten offering to permit the Regis-

trable Securities requested to be included in a Piggy-Back Registration to be included on the same terms and conditions as any similar securities of Parent included therein.

SECTION 2.3. Reduction of Offering. Notwithstanding anything contained in this Registration Rights Agreement, if the managing Underwriter or Underwriters of an offering described in Section 2.1 or 2.2 delivers a written opinion to the Holders of the Registrable Securities to be included in such offering that the success of the offering would be materially and adversely affected by inclusion of all the Registrable Securities requested to be included either because of (a) the size of the offering that the Holders, Parent and such other persons intend to make or (b) the kind of securities that the Holders, Parent and any other persons or entities intend to include in such offering, then (A) in the event that the size of the offering is the basis of such Underwriter's opinion, the amount of securities to be offered for the accounts of Holders shall be reduced to the extent necessary to reduce the total amount of securities to be included in such offering to the amount recommended by such managing Underwriter or Underwriters and Parent will include in the registration the maximum number of securities which it is so advised can be sold without such adverse effect, allocated, on a pro-rata basis within each following order of priority, as follows:

(i) FIRST, any securities proposed to be registered by Holder(s) exercising a Demand Registration right pursuant to this Agreement or any securities proposed to be included in such Demand Registration by other Holder(s) as contemplated by Section 2.1(a);

(ii) SECOND, any securities proposed to be registered by Parent for its own account; and

(iii) THIRD, any other securities proposed to be registered for the account of the Holders in a Piggy-Back Registration or any securities proposed to be registered by another holder(s) pursuant to a registration rights agreement entered into between such other holder(s) and Parent who are exercising "piggy-back" registration rights;

and (B) in the event that the kind of securities to be offered is the basis of such Underwriter's opinion, (x) the Registrable Securities to be included in such offering shall be reduced as described in clause (A) above or (y) if the actions described in the immediately preceding clause (x) would, in the judgment of the managing Underwriter, be insufficient to eliminate substantially the material and adverse effect that inclusion of the Registration Securities requested to be included would have on such offering, such Registrable Securities will be excluded from such offering.

## ARTICLE III

## REGISTRATION PROCEDURES

SECTION 3.1. Filings; Information. Whenever the Holders have requested that any Registrable Securities be registered pursuant to Section 2.1 hereof, Parent will use its best efforts to effect the registration and facilitate the sale of such Registrable Securities in accordance with the intended method of disposition thereof as promptly as practicable, and in connection with any such request:

(a) Parent will as expeditiously as possible prepare and file with the Commission a registration statement on any form for which Parent then qualifies or which counsel for Parent shall deem appropriate and which form shall be available for the sale of the Registrable Securities to be registered thereunder in accordance with the intended method of distribution thereof, and use its best efforts to cause such filed registration statement to become and remain effective for a period of not less than 180 days (90 days in the case of a fully underwritten offering other than pursuant to Rule 415 under the Securities Act); provided that if Parent shall furnish to the Holders making a request pursuant to Section 2.1 a certificate signed by either its Chairman or President stating that in his good faith judgment it would be significantly disadvantageous to Parent or its shareholders for such a registration statement to be filed as expeditiously

as possible, Parent shall have a period of not more than 90 days within which to file such registration statement measured from the date of receipt of the request in accordance with Section 2.1.

(b) Parent will, if requested, prior to filing a registration statement or prospectus or any amendment or supplement thereto, furnish and allow a reasonable time for review and comment to each Selling Holder and each Underwriter, if any, of the Registrable Securities covered by such registration statement copies of such registration statement as proposed to be filed, and thereafter furnish to such Selling Holder and Underwriter, if any, such number of copies of such registration statement, each amendment and supplement thereto (in each case including all exhibits thereto and documents incorporated by reference therein), the prospectus included in such registration statement (including each preliminary prospectus) and such other documents as such Selling Holder or Underwriter may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Selling Holder.

(c) After the filing of the registration statement, Parent will promptly notify each Selling Holder of Registrable Securities covered by such registration statement of any stop order issued or threatened by the Commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered.

(d) Parent will use its best efforts to (i) register or qualify the Registrable Securities under such other securities or blue sky laws of such jurisdictions in the United States as any Selling Holder reasonably (in light of such Selling Holder's intended plan of distribution) requests and (ii) cause such Registrable Securities to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of Parent and do

any and all other acts and things that may be reasonably necessary or advisable to enable such Selling Holder to consummate the disposition of the Registrable Securities owned by such Selling Holder; provided that Parent will not be required to (A) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this paragraph (d), (B) subject itself to taxation in any such jurisdiction, (C) consent to general service of process in any such jurisdiction or (D) consent to any material restrictions on the conduct of its business or any restrictions on payments to any stockholders of Parent; and provided further that the Holders will not be required to take any action pursuant to this paragraph (d).

(e) Parent will promptly notify each Selling Holder of such Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the occurrence of an event requiring the preparation of a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and promptly make available to each Selling Holder any such supplement or amendment.

(f) Parent and each Selling Holder will enter into customary agreements (including an underwriting agreement in customary form containing customary representations, warranties, covenants, opinions, certificates, cross-indemnification and contribution provisions) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such Registrable Securities.

(g) Parent will make available for inspection by any Selling Holder of such Registrable Securities, any Underwriter participat-

ing in any disposition pursuant to such registration statement and any attorney, accountant or other professional retained by any such Selling Holder or Underwriter (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of Parent (collectively, the "Records") as shall be reasonably necessary to conduct due diligence, and cause Parent's officers, directors and employees to supply all information reasonably requested by any Inspectors in connection with such registration statement. The Selling Holders shall cause such Records which Parent determines, in good faith, to be confidential and which Parent notifies the Inspectors are confidential to be kept confidential by the Inspectors and not used for any purpose other than such registration of Registrable Securities, and the Selling Holders shall cause the Inspectors not to disclose the Records unless (i) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in such registration statement or (ii) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction. Information obtained by any Selling Holder hereunder as a result of such inspections shall be deemed confidential and shall be kept confidential by the Selling Holders and may not be used by any Selling Holder for any purpose other than such registration of Registrable Securities. Each Selling Holder will, upon learning that disclosure of such Records is sought in a court of competent jurisdiction, give notice to Parent and allow Parent, at its expense, to undertake appropriate action to prevent disclosure of the Records deemed confidential.

(h) Parent will furnish to each Selling Holder and to each Underwriter, if any, a signed counterpart, addressed to such Selling Holder or Underwriter, of (i) an opinion or opinions of counsel to Parent and (ii) a comfort letter or comfort letters from Parent's independent public accountants, each in custom-

ary form and covering such matters of the type customarily covered by opinions or comfort letters, as the case may be, as the Holders of a majority of the Registrable Securities included in such offering or the managing Underwriter therefor reasonably requests.

(i) Parent will otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security-holders, as soon as reasonably practicable, an earnings statement covering a period of 12 months, beginning within three months after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act.

(j) Parent will use its best efforts to cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by Parent are then listed.

Each Selling Holder of Registrable Securities agrees to promptly furnish in writing to Parent such information regarding the distribution of the Registrable Securities as Parent may from time to time reasonably request and such other information as may be legally required in connection with such registration.

Upon receipt of any notice from Parent of the happening of any event of the kind described in Section 3.1(e) hereof, each Selling Holder will forthwith discontinue disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such Selling Holder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 3.1(e) hereof, and, if so directed by Parent, such Selling Holder will deliver to Parent all copies, other than permanent file copies then in such Selling Holder's possession, of the most recent prospectus covering such Registrable Securities at the time of receipt of such notice. In the event Parent shall give such notice, Parent shall extend the period during which such registration statement shall be maintained effective (including the period referred to in Section 3.1(a)

hereof) by the number of days during the period from and including the date of the giving of notice pursuant to Section 3.1(e) hereof to the date when Parent shall make available to the Selling Holders of Registrable Securities covered by such registration statement a prospectus supplemented or amended to conform with the requirements of Section 3.1(e) hereof.

The procedures set forth in this Section 3.1 shall apply to Piggy-Back Registrations pursuant to Section 2.2.

SECTION 3.2. Registration Expenses. In connection with any registration statement required to be filed hereunder, Parent shall pay the following Registration expenses incurred in connection with the registration hereunder (the "Registration Expenses"): (i) all registration and filing fees, (ii) fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities), (iii) printing expenses, (iv) internal expenses (including without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), (v) the fees and expenses incurred in connection with the listing of the Registrable Securities, and (vi) reasonable fees and disbursements of counsel for Parent and customary fees and expenses for independent certified public accountants retained by Parent (including the expenses of any comfort letters or costs associated with the delivery by independent certified public accountants of a comfort letter or comfort letters requested pursuant to Section 3.1(h) hereof). Parent shall have no obligation to pay any underwriting fees, discounts, commissions or expenses attributable to the sale of Registrable Securities, including, without limitation, the fees and expenses of any Underwriters and such Underwriters' counsel, or any out-of-pocket expenses of the Holders (or the agents who manage their accounts), including, without limitation, the fees and expenses of any counsel retained by the Holders. Such Holders' fees, discounts, commissions and expenses shall be paid promptly by the Holders.

## ARTICLE IV

## INDEMNIFICATION AND CONTRIBUTION

SECTION 4.1. Indemnification by Parent. Parent agrees to indemnify and hold harmless each Selling Holder of Registrable Securities, its officers, directors and agents, and each Person, if any, who controls such Selling Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) caused by any untrue statement or alleged untrue statement of a material fact contained in any registration statement or prospectus relating to the Registrable Securities or in any amendment or supplement thereto or in any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished in writing to Parent by such Selling Holder or on such Selling Holder's behalf expressly for the use therein; provided, that with respect to any untrue statement or omission or alleged untrue statement or omission made in any preliminary prospectus, the indemnity agreement contained in this paragraph shall not apply to the extent that any such loss, claim, damage, liability or expense results from the fact that a current copy of the prospectus was not sent or given to the person asserting any such loss, claim, damage, liability or expense at or prior to the written confirmation of the sale of the Registrable Securities concerned to such person if it is determined that it was the responsibility of such Selling Holder to provide such person with a current copy of the prospectus and such current copy of the prospectus would have cured the defect giving rise to such loss, claim, damage, liability or expense. Parent also agrees to indemnify any Underwriters of the Registrable Securities, their officers and directors and each person who controls such underwriters on substantially the same basis as that of the indemnification of the Selling Holders provided in this Section 4.1.

SECTION 4.2. Indemnification by Holders of Registrable Securities. Each Selling Holder agrees, severally but not jointly, to indemnify and hold harmless Parent, its officers, directors and agents and each Person, if any, who controls Parent within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from Parent to such Selling Holder, but only with respect to information furnished in writing by such Selling Holder or on such Selling Holder's behalf expressly for use in any registration statement or prospectus relating to the Registrable Securities, or any amendment or supplement thereto, or any preliminary prospectus; and provided that the liability of each Selling Holder under the foregoing indemnity shall be limited to an amount equal to the public offering price of the Registrable Securities sold by such Selling Holder, less the applicable underwriting discounts and commissions. Each Selling Holder also agrees to indemnify and hold harmless Underwriters of the Registrable Securities, their officers and directors and each person who controls such Underwriters on substantially the same basis as that of the indemnification of Parent provided in this Section 4.2.

SECTION 4.3. Conduct of Indemnification Proceeding. If any action or proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 4.1 or 4.2, such person (an "Indemnified Party") shall promptly notify the person against whom such indemnity may be sought (an "Indemnifying Party") in writing and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party, and shall assume the payment of all expenses. Such Indemnified Party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (a) the Indemnifying Party and the Indemnified Party shall have mutually agreed to the retention of such counsel or (b) the named parties to any such action or proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing inter-

ests between them. It is understood that the Indemnifying Party shall not, in connection with any one such action or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for all such Indemnified Parties, and that all such fees and expenses shall be reimbursed as they are incurred. In the case of any such separate firm for the Indemnified Parties, such firm shall be designated in writing by the Indemnified Parties and shall, in the case of a Demand Registration, be reasonably satisfactory to the Indemnifying Party. The Indemnifying Party shall not be liable for any settlement of any such action or proceeding effected without its written consent, but if settled with its written consent, or if there be a final judgment for the plaintiff in any such action or proceeding, the Indemnifying Party shall indemnify and hold harmless such Indemnified Parties from and against any loss or liability (to the extent stated above) by reason of such settlement or judgment. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of with any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party, unless such settlement includes an unconditional release of such Indemnified Party from all liability arising out of such proceeding.

SECTION 4.4. Contribution. If the indemnification provided for in this Article IV is unavailable to the Indemnified Parties in respect of any losses, claims, damages or liabilities referred to herein, then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities (a) as between Parent and the Selling Holders on the one hand and the Underwriters on the other, in such proportion as is appropriate to reflect the relative benefits received by Parent and the Selling Holders on the one hand and the Underwriters on the other from the offering of the securities, or if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of

Parent and the Selling Holders on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations and (b) as between Parent on the one hand and each Selling Holder on the other, in such proportion as is appropriate to reflect the relative fault of Parent and of each Selling Holder in connection with such statements or omissions, as well as any other relevant equitable considerations. The relative benefits received by Parent and the Selling Holders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by Parent and the Selling Holders bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the prospectus. The relative fault of Parent and the Selling Holders on the one hand and of the Underwriters on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by Parent and the Selling Holders or by the Underwriters. The relative fault of Parent on the one hand and of each Selling Holder on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by such party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

Parent and the Selling Holders agree that it would not be just and equitable if contribution pursuant to this Section 4.4 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages or liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitation set forth above, any legal or other expenses

reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 4.4, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, and no Selling Holder shall be required to contribute any amount in excess of the amount by which the total price at which the Securities of such Selling Holder were offered to the public exceeds the amount of any damages which such Selling Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

## ARTICLE V

## EFFECTIVENESS

SECTION 5.1. Effectiveness. This Agreement shall become effective only upon the consummation of the Merger and shall terminate and be void and of no force or effect if the Merger Agreement is terminated in accordance with its terms.

## ARTICLE VI

## MISCELLANEOUS

SECTION 6.1. Participation in Underwritten Registrations. No Person may participate in any underwritten registration hereunder unless such Person (a) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of

such underwriting arrangements and these Registration Rights.

SECTION 6.2. Merger, Consolidation, Exchange, Recapitalization etc. In the event, directly or indirectly, (a) Parent shall merge with and into, or consolidate with, or consummate a share exchange with, any other person, or (b) any person shall merge with and into, or consolidate, Parent and Parent shall be the surviving corporation of such merger or consolidation and, in connection with such merger or consolidation, all or part of the Registrable Securities shall be changed into or exchanged for stock or other securities of any person, or (c) any capital stock or other securities are issued in respect of, in exchange for, or in substitution of, any Parent equity securities by reason of any reorganization, recapitalization, reclassification, merger, consolidation, spin-off, partial or complete liquidation, stock dividend, split-up, split-off, sale of assets, distribution to stockholders or combination of the shares of Parent equity securities or any Parent's capital structure, then, in each such case, appropriate adjustments shall be made so as to fairly and equitably preserve, as far as practicable, the original rights and obligations of the parties hereto under this Registration Rights Agreement.

SECTION 6.3. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by an overnight courier service, such as FedEx, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent, to:

Union Pacific Corporation
Martin Towers
Eighth & Eaton Avenues
Bethlehem, Pennsylvania 18018
Attention: Carl W. von Bernuth, Esq.
Telephone No.: (610) 861-3200
Telecopy No.: (610) 861-3111

with a copy to:

Paul T. Schnell, Esq.
Skadden, Arps, Slate, Meagher, & Flom
919 Third Avenue
New York, New York 10022
Telephone No.: (212) 735-3000
Telecopy No.: (212) 735-2001

and

(b) if to the Holders to:

The Anschutz Corporation
Anschutz Foundation
Suite 2400
555 Seventeenth Street
Denver, Colorado 80202
Attention: Philip F. Anschutz
Telephone No.: (303) 298-1000
Telecopy No.: (303) 298-8881

with a copy to:

O'Melveny & Myers
153 East 53rd Street
New York, New York 10022
Attention: Drake S. Tempest, Esq.
Telephone No.: (212) 326-2000
Telecopy No.: (212) 326-2091

SECTION 6.4. No Waivers; Remedies. No failure or delay by any party in exercising any right, power or privilege under this Agreement shall operate as a waiver of the right, power or privilege. A single or partial exercise of any right, power or privilege shall not preclude any other or further exercise of the right, power or privilege or the exercise of any other right, power or privilege. The rights and remedies provided in this Agreement shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 6.5. Amendments, etc. No amendment, modification, termination or waiver of any provision of this Agreement, and no consent to any departure by a party to this Agreement from any provision of this Agreement, shall be effective unless it shall be in writing and signed and delivered by the other party to this Agreement, and then it shall be effective only in the specific instance and for the specific purpose for which it is given.

SECTION 6.6. Assignment. The provisions of this Agreement shall not be assignable and any transfer of Registrable Securities shall not transfer any rights under this Agreement to the transferee; provided, however, that (a) either Holder shall have the right to assign its rights under this Agreement to any Person who or which (i) acquires at least 20% of the Parent Common Stock then Beneficially Owned by such Holder, (ii) would then be eligible to report its ownership of Parent Common Stock (assuming ownership by such Person of a sufficient number of shares of Parent Common Stock to require such reporting) on a Schedule 13G, (iii) shall have agreed in writing (which agreement shall be addressed, and shall be reasonably satisfactory in form and substance, to Parent) to be bound by and comply with this Agreement with the same force and effect as if all references herein to the Holders were references to such Person and (iv) is reasonably acceptable to Parent, and (b) without the consent of Parent, but subject to clauses (i) and (iii) of subsection (a) above, either Holder shall have the right to assign its rights under this Agreement to (x) any financial institution to which such Holder has, in accordance with Section 2(b) of the Shareholders Agreement, pledged shares of Parent Common Stock, provided that such assignment shall not be effective until following a default by Holder under such pledge, or (y) any Affiliate of Mr. Philip F. Anschutz (it being understood and agreed that any such rights transferred to any such Affiliate shall terminate if such Affiliate ceases to be an Affiliate of Mr. Philip F. Anschutz).

SECTION 6.7. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to the principles of conflicts of laws thereof. All rights and obligations of Parent and Holders shall be

in addition to and not in limitation of those provided by applicable law.

SECTION 6.8. Counterparts; Effectiveness. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all signatures were on the same instrument.

SECTION 6.9. Severability of Provisions. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of the prohibition or unenforceability without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of the provision in any other jurisdiction.

SECTION 6.10. Headings and References. Section headings in this Agreement are included for the convenience of reference only and do not constitute a part of this Agreement for any other purpose. Reference to parties and sections in this Agreement are references to the parties to or the sections of this Agreement, as the case may be, unless the context shall require otherwise.

SECTION 6.11. Entire Agreement. This Agreement embodies the entire agreement and understanding of the respective parties with respect to the Holders' registration rights and supersedes all prior agreements or understandings with respect to such rights.

SECTION 6.12. Survival. Except as otherwise specifically provided in this Agreement, each representation, warranty or covenant of each party to this Agreement contained in or made pursuant to this Agreement shall survive and remain in full force and effect, notwithstanding any investigation or notice to the contrary or any waiver by any other party of a related condition precedent to the performance by the other party of an obligation under this Agreement.

SECTION 6.13. Non-Exclusive Jurisdiction. Each party hereto (a) agrees that any action, suit or proceeding (collectively, an "Action") with respect to this Agreement may be brought in the courts of the United States of America for the Southern District of New York, (b) accepts for itself and in respect of its property,

generally and unconditionally, the jurisdiction of those courts and (c) irrevocably waives any objection, including, without limitation, any objection to the laying of venue or based on the grounds of FORUM NON CONVENIENS, which it may now or hereafter have to the bringing of any Action in those jurisdictions.

SECTION 6.14. Waiver of Jury Trial. Each party waives any right to a trial by jury in any Action to enforce or defend any right under this Agreement or any amendment, instrument, document or agreement delivered, or which in the future may be delivered, in connection with this Agreement and agrees that any Action shall be tried before a court and not before a jury.

SECTION 6.15. Specific Performance. Each of the parties hereto recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore each of the parties hereto agrees that in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

SECTION 6.16. No Inconsistent Agreements. Parent is not as of the date hereof subject to any agreement with respect to the registration under the Securities Act of any securities of Parent or otherwise, and prior to the Termination Date shall not enter into any such agreement that is inconsistent with the provisions of this Agreement, including, without limitation, the order of priority by which the total amount of securities of Parent to be included in any offering subject to Article II hereof shall be reduced pursuant to Section 2.3 hereof.

IN WITNESS WHEREOF, Parent and the Holders have caused this Agreement to be duly executed as of the date first above written.

UNION PACIFIC CORPORATION

By: _____
Name:
Title:

THE ANSCHUTZ CORPORATION

By: _____
Name:
Title:

ANSCHUTZ FOUNDATION

By: _____
Name:
Title:

**ANSCHUTZ/SPINCO SHAREHOLDERS AGREEMENT**

AGREEMENT, dated as of August 3, 1995, by and among Union Pacific Resources Group Inc., a corporation ("Spinco") and an indirect wholly owned subsidiary of Union Pacific Corporation, a Utah corporation ("Parent"), The Anschutz Corporation, a Kansas corporation ("TAC"), Anschutz Foundation, a Colorado not-for-profit corporation (the "Foundation"), and Mr. Philip F. Anschutz ("Mr. Anschutz" and, collectively with TAC and the Foundation, the "Shareholders").

W I T N E S S E T H:

WHEREAS, simultaneously with the execution of this Agreement, Parent, Union Pacific Railroad Company, a Utah corporation and an indirect wholly owned subsidiary of Parent ("UPRR"), UP Acquisition Corporation, a Delaware corporation and a direct wholly owned subsidiary of UPRR (the "Purchaser"), and Southern Pacific Rail Corporation, a Delaware corporation (the "Company"), have entered into an Agreement and Plan of Merger (as such Agreement may hereafter be amended from time to time, the "Merger Agreement"), pursuant to which Purchaser has agreed, among other things, to commence a cash tender offer (the "Offer") to purchase up to 39,034,471 shares of common stock, $.001 par value, of the Company (the "Company Common Stock") and the Company will be merged with and into UPRR (the "Merger");

WHEREAS, pursuant to the Merger, the Shareholders will receive shares of Common Stock, par value $2.50 per share, of Parent;

WHEREAS, Parent intends to effect an initial public offering of no more than 17.25% (not including employee shares or employee options) of, and to distribute to its shareholders as a pro rata dividend (the "Spin-off") the remainder of, the shares of capital stock of Spinco;

WHEREAS, the Shareholders, as a result of the Merger and the Spin-off, may beneficially own certain shares of capital stock of Spinco (the "Spinco Shares"); and

WHEREAS, as an inducement and a condition to Parent, UPRR and the Purchaser entering into the Merger

Agreement and incurring the obligations set forth therein, Parent has required that the Shareholders agree, and the Shareholders have agreed, to enter into this Shareholders' Agreement, pursuant to which, among other things, the Shareholders have agreed to abide by certain agreements relating to the Spinco Shares.

NOW, THEREFORE, in consideration of the foregoing and the mutual premises, representations, warranties, covenants and agreements contained herein and in the Merger Agreement and the Ancillary Agreements, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Certain Definitions. Capitalized terms used and not defined herein have the respective meanings ascribed to them in the Merger Agreement. In addition, for purposes of this Agreement:

(a) "Affiliate" shall mean, with respect to any specified Person, any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified. For purposes of this Agreement, with respect to any Shareholder, "Affiliate" shall not include Spinco and the Persons that directly, or indirectly through one or more intermediaries, are controlled by Spinco.

(b) "Beneficially Own" or "Beneficial Ownership" with respect to any securities shall mean having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), including pursuant to any agreement, arrangement or understanding, whether or not in writing. Without duplicative counting of the same securities by the same holder, securities Beneficially Owned by a Person shall include securities Beneficially Owned by all Affiliates of such Person and all other Persons with whom such Person would constitute a "group" within the meaning of Section 13(d) of the Exchange Act and the rules promulgated thereunder.

(c) "Company Voting Securities" shall mean any securities of the Company entitled, or which may be entitled, to vote generally in the election of directors and any securities convertible into or exercisable or exchangeable for such securities (whether or not subject to contingencies with respect to any matter or proposal

submitted for the vote or consent of shareholders of the Company). For purposes of determining the percentage of Company Voting Securities Beneficially Owned by a Person, securities Beneficially Owned by any such Person that are convertible, exercisable or exchangeable for securities entitled to vote shall be deemed to be converted, exercised or exchanged and shall represent the number of securities of the Company entitled to vote into which such convertible, exercisable or exchangeable securities (disregarding for such purposes any restrictions on conversion, exercise or exchange) are then convertible, exchangeable or exercisable.

(d) "Spinco Voting Securities" shall mean any securities of Spinco entitled, or which may be entitled, to vote generally in the election of directors and any securities convertible into or exercisable or exchangeable for such securities (whether or not subject to contingencies with respect to any matter or proposal submitted for the vote or consent of shareholders of Spinco). For purposes of this Agreement, Spinco Voting Securities shall not include Parent Voting Securities or Company Voting Securities. For purposes of determining the percentage of Spinco Voting Securities Beneficially Owned by a Person, securities Beneficially Owned by any such Person that are convertible, exercisable or exchangeable for securities entitled to vote shall be deemed to be converted, exercised or exchanged and shall represent the number of securities of Spinco entitled to vote into which such convertible, exercisable or exchangeable securities (disregarding for such purposes any restrictions on conversion, exercise or exchange) are then convertible, exchangeable or exercisable.

(e) "Current Market Price" shall mean, as applied to any class of stock on any date, the average of the daily "Closing Prices" (as hereinafter defined) for the 20 consecutive trading days immediately prior to the date in question. The term "Closing Price" on any day shall mean the last sales price, regular way, per share of such stock on such day, or if no such sale takes place on such day, the average of the closing bid and asked prices, regular way, as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if shares of such stock are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on th

principal national securities exchange on which the shares of such stock are listed or admitted to trading, or, if the shares of such stock are not listed or admitted to trading on any national securities exchange on the NASDAQ National Market System or, if the shares of such stock are not quoted on the NASDAQ National Market System, the average of the high bid and low asked prices in the over-the-counter market as reported by the National Association of Securities Dealers Inc.'s Automated Quotation System.

(f) "including" shall mean including without limitation.

(g) "Parent Voting Securities" shall mean any securities of Parent entitled, or which may be entitled, to vote generally in the election of directors and any securities convertible into or exercisable or exchangeable for such securities (whether or not subject to contingencies with respect to any matter or proposal submitted for the vote or consent of shareholders of Parent). For purposes of this Agreement, Parent Voting Securities shall not include Company Voting Securities. For purposes of determining the percentage of Parent Voting Securities Beneficially Owned by a Person, securities Beneficially Owned by any such Person that are convertible, exercisable or exchangeable for securities entitled to vote shall be deemed to be converted, exercised or exchanged and shall represent the number of securities of Parent entitled to vote into which such convertible, exercisable or exchangeable securities (disregarding for such purposes any restrictions on conversion, exercise or exchange) are then convertible, exchangeable or exercisable.

(h) "Person" shall mean an individual, corporation, partnership, joint venture, association, trust, unincorporated organization or other entity.

(i) "Transfer" shall mean, with respect to a security, the sale, transfer, pledge, hypothecation, encumbrance, assignment or disposition of such security or the Beneficial Ownership thereof, the offer to make such a sale, transfer or other disposition, and each agreement, arrangement or understanding, whether or not in writing, to effect any of the foregoing. As a verb, "Transfer" shall have a correlative meaning.

2. Effectiveness. This Agreement shall become effective only upon consummation of the Spin-off and shall terminate and be void and of no further force or effect if the Merger Agreement is terminated in accordance with Article VII thereof.

3. Pledge. TAC has advised Parent that shares of Company Common Stock Beneficially Owned by TAC are or may be pledged to Bank of America National Trust and Savings Association or Citibank, N.A., respectively (collectively, the "Banks") pursuant to pledge agreements (substantially in the forms reviewed by Parent, collectively, the "Existing Pledge Agreements") to secure indebtedness borrowed from the Banks. TAC represents and warrants that the Existing Pledge Agreements do not or, before indebtedness borrowed therefrom is secured by any such shares, will not prevent, limit or interfere with TAC's compliance with, or performance of its obligations under, this Agreement, absent a default under the applicable Existing Pledge Agreements. TAC represents and warrants that it is not in default under the Existing Pledge Agreements. Before Spinco Voting Securities shall be pledged to secure indebtedness owed under an Existing Pledge Agreement, TAC shall deliver to Parent a letter from Bank of America National Trust and Savings Association or Citibank, N.A., as the case may be, acknowledging this Agreement and agreeing that, notwithstanding any default under the Existing Pledge Agreement, TAC shall have the right to exercise all voting rights with respect to the Company Common Stock pledged thereunder. Shareholders may hereafter effect one or more pledges of Company Voting Securities, or grants of security interests therein, to one or more financial institutions (other than the Banks) that are not Affiliates of any Shareholder (collectively, "Other Financial Institutions") as security for the payment of bona fide indebtedness owed by one or more of the Shareholders or their Affiliates to such financial institutions. Except as set forth in the proviso below, neither the Bank nor any financial institution which hereafter becomes a pledgee of Company Voting Securities shall incur any obligations under this Agreement with respect to such Company Voting Securities or shall be restricted from exercising any right of enforcement or foreclosure with respect to any related security interest or lien; provided, however, that it shall be a condition to any such pledge to any Other Financial Institution that the pledgee shall agree that TAC shall have the right to exercise all voting rights with respect to the Company Voting Securities

pledged thereunder no such pledge shall prevent, limit or interfere with Shareholders' compliance with, or performance of their obligations under, this Agreement, absent a default under such pledge agreement.

4. Public Comments; Fiduciary Duties.

(a) During the Standstill Period (as defined below), Shareholders will not, and will cause their Affiliates not to, directly or indirectly, make any public comment, statement or communication, or take any action that would otherwise require any public disclosure by Shareholders, Parent, Spinco or any other Person, concerning the Merger, the Offer, the Spin-off (as described in Section 5.4 of the Merger Agreement) and the other transactions contemplated by the Merger Agreement, this Agreement and the Ancillary Agreements, except for any disclosure (i) concerning the status of Shareholders as parties to such agreements the terms thereof, and their beneficial ownership of Shares required pursuant to Section 13d of the Exchange Act or (ii) required in the Schedule 14D-9 or the Proxy Statement/Prospectus.

(b) It is hereby acknowledged that any Person who is a director or officer of the Company may exercise his fiduciary duties in his capacity as a director or officer with respect to the Company, as opposed to taking action with respect to the direct or indirect ownership of any Shares, and no such exercise of fiduciary duties shall be deemed to be a breach of, or a violation of the restrictions set forth in, this Agreement and none of the Shareholders shall have any liability hereunder for any such exercise of fiduciary duties by such Person in his capacity as a director and officer of the Company. Nothing in this Section 4(b) shall relieve or affect any of the Company's or its Affiliates' obligations under the Merger Agreement.

5. Standstill and Related Provisions.

(a) Subject to the paragraph at the end of this Subsection 5(a), Shareholders agree that for a period commencing on the date hereof and terminating on the seventh anniversary of the Effective Time or, if earlier, the termination of this Agreement in accordance with the terms of Section 13 hereof (the "Standstill Period"), without the prior written consent of the Board of Directors of Spinco (the "Board") specifically expressed in a resolution adopted by a majority of the

directors of Spinco, Shareholders will not, and Shareholders will cause each of their respective Affiliates not to, directly or indirectly, alone or in concert with others:

(i) acquire, offer or propose to acquire, or agree to acquire (except, in any case, by way of (A) following consummation of the Spin-off, stock dividends or other distributions or rights offerings made available to holders of any shares of common stock of Spinco ("Spinco Common Stock") generally, share-splits, reclassifications, recapitalizations, reorganizations and any other similar action taken by Spinco, (B) following consummation of the Spin-off, the conversion, exercise or exchange of Spinco Voting Securities in accordance with the terms thereof and (C) the issuance and delivery of Spinco Voting Securities pursuant to the Spin-off, provided, that any such securities shall be subject to the provisions hereof), directly or indirectly, whether by purchase, tender or exchange offer, through the acquisition of control of another Person, by joining a partnership, limited partnership, syndicate or other "group" (within the meaning of Section 13(d)(3) of the Exchange Act) (other than groups consisting solely of Shareholders and their Affiliates, all of which are or, prior to the formation of such group, become, parties to this Agreement) or otherwise, any Spinco Voting Securities; provided, however, that if Spinco shall issue additional Spinco Voting Securities following consummation of the Spin-off, Shareholders and their Affiliates may purchase or acquire additional Spinco Voting Securities to bring their Beneficial Ownership up to the greater of 5.5% and the percentage of outstanding Spinco Voting Securities Beneficially Owned by the Shareholders immediately prior to such issuance by Spinco; provided, further, without limiting the immediately preceding proviso, if as a result of Transfers of Spinco Voting Securities, Shareholders Beneficially Own less than 5.5% of the then outstanding shares of Spinco Voting Securities, Shareholders may purchase or acquire additional Spinco Voting Securities to bring their Beneficial Ownership up to, but not in excess of, 5.5% of the then outstanding shares of Spinco Voting Securities. In addition, in the event that a Shareholder or an Affiliate thereof inadvertently and without knowledge (an "Inadvertent Acquisition") indirectly acquires Beneficial Ownership of not more than one-quarter of one percent of the Spinco Voting Securities in excess of the amount permitted to be owned by the Shareholders pursuant to this Section 5(a) pursuant to a

transaction by which a Person (that was not then an Affiliate of a Shareholder before the consummation of such transaction) owning Spinco Voting Securities becomes an Affiliate of such Shareholder, then all Spinco Voting Securities so acquired shall thereupon become subject to this Agreement and such Shareholder shall be deemed not to have breached this Agreement provided that such Shareholder, within 120 days thereafter, causes a number of such Spinco Voting Securities in excess of the amount permitted to be so owned (or, at the election of such Shareholder, an equal number of the other Spinco Voting Securities that are Beneficially Owned by a Shareholder) to be Transferred, in a transaction subject to Section 6 hereof, to a transferee that is not a Shareholder, an Affiliate thereof or a member of a "group" in which a Shareholder or an Affiliate is included (or, if Spinco or its assignee shall exercise any purchase rights under Section 6(b) hereof, to Spinco or its assignee);

(ii) make, or in any way participate, directly or indirectly, in any "solicitation" (as such term is used in the proxy rules of the Securities and Exchange Commission as in effect on the date hereof) of proxies or consents (whether or not relating to the election or removal of directors), seek to advise, encourage or influence any Person with respect to the voting of any Spinco Voting Securities, initiate, propose or otherwise "solicit" (as such term is used in the proxy rules of the Securities and Exchange Commission as in effect on the date hereof) shareholders of Spinco for the approval of shareholder proposals, whether made pursuant to Rule 14a-8 of the Exchange Act or otherwise, or induce or attempt to induce any other Person to initiate any such shareholder proposal or otherwise communicate with the Spinco's shareholders or others pursuant to Rule 14a-1(2)(iv) under the Exchange Act or otherwise;

(iii) seek, propose, or make any statement with respect to, any merger, consolidation, business combination, tender or exchange offer, sale or purchase of assets, sale or purchase of securities, dissolution, liquidation, reorganization, restructuring, recapitalization, change in capitalization, change in corporate structure or business or similar transaction involving Spinco or its subsidiaries (any of the foregoing being referred to herein as a "Specified Spinco Transaction"); provided that the foregoing shall not prevent (A) voting in accordance with Section 5(c) hereof (but shall prevent any public comment, statement or

communication, and any action that would otherwise require any public disclosure by Shareholders, Spinco or any other Person, concerning such voting) or (B) the Shareholder Designee (as defined in Section 7 hereof) from exercising his fiduciary duties in his capacity as a director by participating in any Board deliberations or vote of the Board of Directors of Spinco with respect to a Specified Spinco Transaction;

(iv) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to any Spinco Voting Securities, other than groups consisting solely of Shareholders and their Affiliates;

(v) deposit any Spinco Voting Securities in any voting trust or subject any Spinco Voting Securities to any arrangement or agreement with respect to the voting of any Spinco Voting Securities except as set forth in this Agreement;

(vi) call or seek to have called any meeting of the stockholders of Spinco or execute any written consent with respect to Spinco or Spinco Voting Securities; provided that the foregoing shall not prevent the Shareholder Designee from exercising his fiduciary duties in his capacity as a director by participating in any Board deliberations or vote of the Board of Directors of Spinco with respect to the calling of any annual meeting of shareholders of Spinco;

(vii) otherwise act, alone or in concert with others, to control or seek to control or influence or seek to influence the management, Board of Directors or policies of Spinco (except to the extent the actions by a Shareholder Designee relating to Spinco's Board of Directors in the exercise of his fiduciary duties in his capacity as a director may be viewed as influencing or seeking to influence the management, Board of Directors or policies of Spinco);

(viii) seek, alone or in concert with others, representation on the Board of Directors of Spinco (except as provided in Section 7 of this Agreement), or seek the removal of any member of such Board or a change in the composition or size of such Board;

(ix) make any publicly disclosed proposal, comment, statement or communication (including,

without limitation, any request to amend, waive or terminate any provision of this Agreement other than Section 5(a)), or make any proposal, comment, statement or communication (including, without limitation, any request to amend, waive or terminate any provision of this Agreement other than Section 5(a)) in a manner that would require any public disclosure by Shareholders, Spinco or any other Person, or enter into any discussion with any Person (other than directors and officers of Spinco), regarding any of the foregoing;

(x) make or disclose any request to amend, waive or terminate any provision of Section 5(a) of this Agreement; or

(xi) have any discussions or communications, or enter into any arrangements, understandings or agreements (whether written or oral) with, or advise, finance, assist or encourage, any other Person in connection with any of the foregoing, or take any action inconsistent with the foregoing, or make any investment in or enter into any arrangement with, any other Person that engages, or offers or proposes to engage, in any of the foregoing.

The restrictions set forth in this Section 5(a) shall not prevent Shareholders from (A) performing their obligations and exercising their rights under this Agreement, including, without limitation, (w) Transferring any Company Voting Securities or Spinco Voting Securities in accordance with Sections 3, 4 and 6 hereof, (x) selecting the Shareholder Designee, (y) serving in the positions described in or resigning from such positions as described in Section 7(a) hereof, and (z) voting in accordance with Section 5(b) hereof; (B) communicating in a non-public manner with any other Shareholder or their Affiliates; and (C) complying with the requirements of Sections 13(d) and 16(a) of the Exchange Act and the rules and regulations thereunder, in each case, as from time to time in effect, or any successor provisions or rules with respect thereto, or any other applicable law, rule, regulation, judgment, decree, ruling, order, award, injunction, or other official action of any agency, bureau, commission, court, department, official, political subdivision, tribunal or other instrumentality of any government (whether federal, state, county or local, domestic or foreign).

(b) Shareholders agree that during the period commencing on the date hereof and continuing until the earlier of (x) the consummation of the Merger and (y) the termination of the Merger Agreement, Shareholders will not, and Shareholders will cause each of their respective Affiliates not to, directly or indirectly, alone or in concert with others, acquire, offer or propose to acquire, or agree to acquire, whether by purchase, tender or exchange offer, though the acquisition of control of another Person, by joining a partnership, limited partnership, syndicate or other "group" or otherwise, any Company Voting Securities (except by way of stock dividends or other distributions or rights offerings made available to holders of any shares of Company Common Stock generally, stock-splits, reclassifications, recapitalizations, reorganizations and any other similar action taken by Company).

(c) Subject to the receipt of proper notice and the absence of a preliminary or permanent injunction or other final order by any United States federal court or state court barring such action, Shareholders agree that during the Standstill Period Shareholders will, and will cause their Affiliates to, (i) be present, in person or represented by proxy, at all annual and special meetings of shareholders of Spinco so that all Spinco Common Stock Beneficially Owned by Shareholders and their Affiliates and then entitled to vote may be counted for the purposes of determining the presence of a quorum at such meetings, and (ii) vote in accordance with the recommendation of the Board of Directors of Spinco in the election of directors and as directed by the Persons acting as Proxies in respect of proxies solicited by the Board of Directors of Spinco (including the manner in which such Spinco Common Stock shall be cumulated). On all other matters presented for a vote of shareholders of Spinco, Shareholders may vote in their discretion.

6. Limitations on Disposition.

(a) Shareholders agree that during the Standstill Period they will not, and will cause their Affiliates not to, directly or indirectly, without the prior written consent of the Board of Directors of Spinco specifically expressed in a resolution adopted by a majority of the directors of Spinco, Transfer to any Person any Spinco Voting Securities (including but not limited to the Transfer of any securities of an Affiliate which is the record holder or Beneficial Owner of Spinco

Voting Securities if, as the result of such Transfer, such Person would cease to be an Affiliate of a Shareholder), if, to the knowledge of the Shareholders or any of their Affiliates, after due inquiry which is reasonable in the circumstances (and which shall include, with respect to the Transfer of 1% or more of the Spinco Voting Securities then outstanding in one transaction, or a series of related transactions, specific inquiry which respect to the identity of the acquiror of such Spinco Voting Securities and the number of Spinco Voting Securities that, immediately following such transaction or transactions, would be Beneficially Owned by such acquiror, together with its Affiliates and any members of a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) of which such acquiror is a member), immediately following such transaction the acquiror of such Spinco Voting Securities, together with its Affiliates and any members of such a group, would Beneficially Own in the aggregate 4% or more of the Spinco Voting Securities then outstanding; provided that, without the prior written consent of the Board of Directors of Spinco, (i) Shareholders and their Affiliates may Transfer any number of Spinco Voting Securities to any other Shareholder, any Affiliate of a Shareholder or to any heirs, distributees, guardians, administrators, executors, legal representatives or similar successors in interest of any Shareholder, provided that (A) such transferee, if not then a Shareholder, shall become a party to this Agreement and agree in writing to perform and comply with all of the obligations of such transferor Shareholder under this Agreement, and thereupon such transferee shall be deemed to be a Shareholder party hereto for all purposes of this Agreement, and (B) if the transferee is not prior thereto a Shareholder, the transferor shall remain liable for such transferee's performance of and compliance with the obligations of the transferor under this Agreement, (ii) Shareholders and their Affiliates may Transfer Spinco Voting Securities in a tender offer, merger, or other similar business combination transaction approved by the Board of Directors of Spinco, and (iii) Shareholders may pledge their Spinco Voting Securities as provided in Section 3 hereof and the pledgee may Transfer such Spinco Voting Securities in connection with the enforcement or foreclosure of any related security interest or lien following a default.

(b) During the Standstill Period, if to the knowledge of the Shareholders after making due inquiry which is reasonable under the circumstances, immediately

following the Transfer of any Spinco Voting Securities the acquiror thereof, together with its Affiliates and any members of a "group" (within the meaning of Section 13(d)(3) of the Exchange Act), would Beneficially Own in the aggregate 2% or more of the outstanding Spinco Voting Securities (a "2% Sale"), Shareholders shall, prior to effecting any such Transfer, offer Spinco a right of first refusal to purchase the shares proposed to be Transferred on the following terms. Shareholders shall provide Spinco with written notice (the "2% Sale Notice") of any proposed 2% Sale, which 2% Sale Notice shall contain the identity of the purchaser, the number of shares of Spinco Voting Securities proposed to be Transferred to such purchaser, the purchase price for such shares and the form of consideration payable for such shares. The 2% Sale Notice shall also contain an irrevocable offer to sell the shares subject to such 2% Sale Notice to Spinco for cash at a price equal to the price contained in such 2% Sale Notice. Spinco shall have the right and option, by written notice delivered to such Shareholder (the "Purchase Notice") within 15 days of receipt of the 2% Sale Notice, to accept such offer as to all, but not less than all, of the Spinco Voting Securities subject to such 2% Sale Notice. Spinco shall have the right to assign to any Person such right to purchase the shares subject to the 2% Sale Notice. In the event Spinco (or its assignee) elects to purchase the shares subject to the 2% Sale Notice, the closing of the purchase of the Spinco Voting Securities shall occur at the principal office of Spinco (or its assignee) on or before the 30th day following such Shareholder's receipt of the Purchase Notice. In the event Spinco does not elect to purchase the shares subject to the 2% Sale Notice, such Shareholder shall be free, for a period of 30 days following the receipt of notice from Spinco of its election not to purchase such shares or, in the absence of any such notice, for a period of 30 days following the 15th day after receipt by Spinco of the 2% Sale Notice, to sell the shares subject to the 2% Sale Notice in accordance with the terms of, and to the person identified in, the 2% Sale Notice. If such sale is not effected within such 30 day period such shares shall remain subject to the provisions of this Agreement. Notwithstanding the foregoing, the right of first refusal set forth in this Subsection (b) shall not apply to the sale by Shareholders of Spinco Voting Securities (i) made in an underwritten public offering pursuant to an effective registration statement under the Securities Act, or (ii) made in a transaction permitted pursuant to, and made in compliance with, clauses (i) or

(iii) of the proviso to Section 6(a) hereof, or (iii) made in a tender offer, merger or other similar business combination transaction approved by the Board of Directors of Spinco. Any proposed sale by Shareholders of Spinco Voting Securities shall be subject to the restrictions on sales to an acquiror which would Beneficially Own 4% or more of the outstanding Spinco Voting Securities, set forth in the proviso in Section 6(a) hereof, whether or not Spinco exercises its right of first refusal and consummates the purchase of Spinco Voting Securities. If Spinco (or its assignee) exercises its right to purchase any Spinco Voting Securities but fails to complete the purchase thereof for any reason other than the failure of such Shareholder to perform its obligations hereunder with respect to such purchase, then, on the 30th day following such Shareholder's receipt of the Purchase Notice, such Spinco Voting Securities shall cease to be subject to Sections 5(c), 6 and 12 hereof for any purpose whatsoever. If the purchase price described in any 2% Sale Notice is not solely made up of cash or marketable securities, the 2% Sale Notice shall include a good faith estimate of the cash equivalent of such other consideration, and the consideration payable by Spinco or its assignee (if Spinco elects to purchase (or to have assignee purchase) the Spinco Voting Securities described in the 2% Sale Notice) in place of such other consideration shall be cash equal to the amount of such estimate; provided, however, that if Spinco in good faith disagrees with such estimate and states a different good faith estimate in the Purchase Notice, and if Spinco and such Shareholder cannot agree on the cash equivalent of such other (i.e., other than cash or marketable securities) consideration, such cash equivalent shall be determined by a reputable investment banking firm without material connections with either party. Such investment banking firm shall be selected by both parties or, if they shall be unable to agree, by an arbitrator appointed by the American Arbitration Association. The fees and expenses of any such investment banking firm and/or arbitrator shall be shared equally by Spinco and such Shareholder, unless otherwise determined by such firm or arbitrator. In the event of such differing estimates by Spinco and such Shareholder, periods of time which would otherwise run under this Section 6(b) from the date of such Shareholder's receipt of the Purchase Notice shall run instead from the date on which the parties agree on such cash equivalent or, in the absence of such agreement, the date on which such cash equivalent is determined by such investment banking firm. If the purchase price described

in any 2% Sale Notice shall include marketable securities, the purchase price payable by Spinco (or its designee) shall include, to the extent marketable securities were included as a portion of the consideration provided for in the 2% Sale Notice, an amount in cash determined by reference to the Current Market Price of such securities on the day the Purchase Notice is received by such Shareholder.

(c) Not later than the tenth day following the end of any calendar month during the Standstill Period in which one or more dispositions of Spinco Voting Securities by Shareholders or any of their Affiliates shall have occurred, the relevant Shareholder shall give written notice to Spinco of all such dispositions. Such notice shall state the date upon which each such disposition was effected, the price and other terms of each such disposition, the number and type of Spinco Voting Securities involved in each such disposition, the means by which each such disposition was effected and, to the extent known, the identity of the Persons acquiring such Spinco Voting Securities.

(d) In connection with any proposed privately negotiated sale by any Shareholders of Spinco Voting Securities representing in excess of 3.9% of the then outstanding Spinco Voting Securities, Spinco will cooperate with and permit the proposed purchaser to conduct a due diligence review reasonable under the circumstances of Spinco and its Subsidiaries and their respective business and operations, including, without limitation, reasonable access during normal business hours to their executive officers, and, if reasonable under the circumstances, their properties, subject to execution by such purchaser of a customary confidentiality agreement; provided that Spinco shall not be required to permit more than two such due diligence reviews in any twelve-month period.

7. Spinco Covenants.

(a) On or prior to the consummation of the Spin-off, the Board of Directors of Spinco will take all action necessary to elect a designee of TAC who is not an Affiliate of, does not have any business relationship with, any of the Shareholders or their Affiliates, and is reasonably acceptable to the Board of Directors of Spinco (the "Shareholder Designee") as a director of Spinco's Board of Directors. In the event that the Shareholder

Designee shall resign, become disabled or be removed as a member of Spinco's Board of Directors (except in circumstances, other than Section 7(a)(vi) hereof, in which the Shareholder Designee was required (including if requested by Spinco) to resign as a director pursuant to the terms of this Agreement) TAC shall have the right to select a new Shareholder Designee. Shareholders acknowledge that as a condition precedent to the appointment of the Shareholder Designee to Spinco's Board of Directors, the Shareholder Designee shall enter into an agreement (the "SD Agreement"), in form and substance satisfactory to Spinco and its counsel, to the effect that:

(i) the Shareholder Designee agrees that he will not provide, disclose, or otherwise make available, directly or indirectly, any confidential or non-public information relating to Spinco or its subsidiaries, including competitively sensitive information, to the Shareholders, or their Affiliates or Representatives;

(ii) the Shareholder Designee will not voluntarily receive, directly or indirectly, any confidential or non-public information relating to any business, company or entity affiliated with any of the Shareholders which competes in any way with, or is a potential competitor of, Spinco (a "Competing Business"), and, in the event the Shareholder Designee involuntarily receives, or receives on an unsolicited basis, such confidential or non-public information, the Shareholder Designee agrees to report to Spinco the fact that the Shareholder Designee received such information;

(iii) in connection with actions taken as a director of Spinco, the Shareholder Designee will not take into account or consider the impact or effect of such actions on the Shareholders (other than in their capacity as shareholders of Spinco), their Affiliates or on any Competing Business;

(iv) the Shareholder Designee will not serve as an officer, director or employee of, or become a shareholder, partner or equity investor in, any Competing Business so long as

such Shareholder Designee serves as a director of Spinco;

(v) none of the Shareholder Designee, any family member of the Shareholder Designee or any person controlled by the Shareholder Designee will have any business relationship with, enter into any arrangements or understandings relating to such business relationship with, or receive any compensation, gifts or other forms of consideration from, the Shareholders or their Affiliates so long as the Shareholder Designee is a director of Spinco; and

(vi) the Shareholder Designee, if requested by Spinco (A) will immediately resign as a director of Spinco in the event that the Federal Trade Commission (the "FTC") shall institute, commence, or threaten any action, proceeding or inquiry relating to the Shareholder Designee's position as a director of Spinco, provided, that in the event of one or more resignations pursuant to this clause (A), the Shareholders shall have the right in each such event to designate a new Shareholder Designee in accordance with the terms hereof; (B) will resign as a director of Spinco not later than the next annual meeting of Shareholders of Spinco in the event that the Shareholders and their Affiliates Beneficially Own less than 4% of Spinco's Voting Securities then outstanding, provided, however that this Agreement shall continue in full force and effect until the date of such resignation and (C) will immediately resign if the Shareholders violate or breach any of the material terms or provisions of this Agreement. Notwithstanding any resignation pursuant to clause (C) of the preceding sentence, all of the provisions of this Agreement other than this Section 7 shall continue in full force and effect.

So long as Shareholders and their Affiliates continue to Beneficially Own in excess of 4% of the Spinco Voting Securities then outstanding or until the termination of this Agreement, Spinco shall include the Shareholder Designee in the Board of Directors' slate of nominees for election as directors at Spinco's annual meeting of shareholders and shall recommend that the Shareholder Designee be elected as a director of Spinco.

So long as a Shareholder Designee serves as a member of the Board of Directors of Spinco, Spinco agrees that the Shareholder Designee shall serve (subject to the applicable requirements of the FTC, the New York Stock Exchange or any other security exchange on which the Spinco Common Stock is listed, or if not so listed, under the rules or regulations of the National Association of Securities Dealers) as a member of the Executive, Finance and Corporate Development, and Compensation Benefits and Nominating Committees of the Board (or the three committees having similar functions). Except as otherwise provided in this Section 7, upon the termination of this Agreement, if requested by Spinco, the Shareholder Designee shall resign as a director of Spinco's Board of Directors.

(b) In the event that any Shareholder Designee shall cease to be a member of the Board of Directors by reason of death, disability or resignation (except in circumstances in which TAC shall not have the right under the first paragraph of Section 7(a) hereof to select a new Shareholder Designee), Spinco shall replace such Shareholder Designee with another Shareholder Designee at the next meeting of the Board of Directors.

(c) The Shareholder Designee, upon nomination or appointment as a director of Spinco, shall agree in writing to comply with the obligations of the Shareholders under Section 5(a) hereof and the obligation of such Shareholder Designee under this Section 7(c).

(d) Without the prior written consent of Shareholders, Spinco shall not take or recommend to its shareholders any action which would impose limitations, not imposed on other Shareholders of Spinco, on the enjoyment by any of Shareholders and their Affiliates of the legal rights generally enjoyed by shareholders of Spinco, other than those imposed by the terms of this Agreement, the Merger Agreement and the Ancillary Agreements; provided, however, that the foregoing shall not prevent Spinco from implementing or adopting a Shareholder Rights Plan or issuing a similar security which has a "trigger" threshold of not less than the greater of 10% of the outstanding shares of Spinco Common Stock or the amount then Beneficially Owned by Shareholders not in violation of this Agreement.

8. Intentionally Omitted

9. Representations and Warranties of Shareholders. Shareholders hereby represent and warrant to Spinco as follows:

(a) TAC is a corporation duly organized and validly existing under the laws of the State of Kansas and is in good standing under the laws of the State of Kansas. The Foundation is a not-for-profit corporation duly organized and validly existing under the laws of the State of Colorado. Shareholders have all necessary power and authority to execute and deliver this Agreement and perform their obligations hereunder. The execution and delivery by TAC and the Foundation of this Agreement and the performance by TAC and the Foundation of their obligations hereunder have been duly and validly authorized by the Board of Directors of TAC and the Foundation, and by the sole stockholder of TAC, and no other proceedings or actions on the part of any Shareholder are necessary to authorize the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

(b) This Agreement has been duly and validly executed and delivered by Shareholders and constitutes the valid and binding agreement of Shareholders, enforceable against Shareholders in accordance with its terms except to the extent (i) such enforcement may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors rights and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(c) Each Shareholder is the sole record holder and Beneficial Owner of the number of shares of Company Common Stock ("Company Shares") listed opposite such Shareholder's name on the signature page hereof, and, except as provided in Section 3 hereof and to the extent created by either or both of the Corporate Matters Agreement and the Registration Rights Agreement, each dated as of August 1, 1993 and among the Company, The Morgan Stanley Leveraged Equity Fund II, L.P., a Delaware limited partnership, TAC and certain other parties thereto, each of which the Shareholders agree to terminate as of the Effective Time, has good and marketable title to all of such Company Shares, free and clear of all liens, claims, options, proxies, voting agreements, security interests, charges and encumbrances. The Company Shares

constitute all of the capital stock of the Company Beneficially Owned by Shareholders, and except for the Company Shares, neither Shareholders nor any of their Affiliates Beneficially Owns or has any right to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing) any Company Voting Securities. Except as provided in Section 3 hereof and in this Section 9(c), each Shareholder has sole power to vote and to dispose of the Company Shares Beneficially Owned by such Shareholder, and sole power to issue instructions with respect to such Company Shares to the extent appropriate in respect of the matters set forth in this Agreement, sole power to demand appraisal rights and sole power to agree to all of the matters set forth in this Agreement, in each case with respect to all of such Company Shares, with no limitations, qualifications or restrictions on such rights, subject to applicable securities laws and the terms of this Agreement. Shareholders do not beneficially own or have any right to acquire (whether currently, upon lapse of time, following the satisfaction of any conditions, upon the occurrence of any event or any combination of the foregoing), except pursuant to the Merger, any Parent Voting Securities.

(d) Except for filings, authorizations, consents and approvals as may be required under, and other applicable requirements of, the ICA, the Securities Exchange Act of 1934, each as amended, (i) no filing with, and no permit, authorization, consent or approval of, any state or federal governmental body or authority is necessary for the execution of this Agreement by Shareholders and the consummation by Shareholders of the transactions contemplated hereby and (ii) none of the execution and delivery of this Agreement by Shareholders, the consummation by Shareholders of the transactions contemplated hereby or compliance by Shareholders with any of the provisions hereof shall (A) conflict with or result in any breach of the certificate or incorporation or by-laws or other organizational documents of TAC or the Foundation, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract, commitment, arrangement, understanding, agreement or other instrument or obligation of any kind to which any Shareholder is a party or

by which any Shareholder or any of its properties or assets (including the Company Shares) may be bound, or (C) violate any order, writ, injunction, decree, judgment, statute, rule or regulation applicable to any Shareholder or any of its properties or assets. To the best knowledge of Shareholders, no litigation is pending or threatened involving Shareholders or the Company relating in any way to this Agreement, the Merger Agreement, the Ancillary Agreements, or any transactions contemplated hereby or thereby.

(e) Shareholders understand and acknowledge that Parent is entering into, and causing the Purchaser to enter into, the Merger Agreement and the Ancillary Agreements, and is incurring the obligations set forth therein, in reliance upon Shareholders' execution and delivery of this Agreement.

(f) Except for Morgan Stanley & Co. Incorporated, no broker, investment banker, financial adviser or other person is entitled to any broker's, finder's, financial adviser's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of Shareholders.

(g) Shareholders have no plan or intention, and as of the Effective Time will have no plan or intention to sell, exchange or otherwise dispose of any of the shares of Parent Voting Securities that they receive in the Merger.

(h) Shareholders have no plan or intention and, as of the effective date of the Spin-off, will have no plan or intention, to sell, exchange or otherwise dispose of any of the Spinco Shares that they receive in such Spin-off (including by inter vivos gift).

(i) Shareholders will make such representations as may reasonably be requested by Parent (provided such representations are true at the time given), and in such form as may reasonably be requested by Parent, for use in connection with the request by Parent that the Internal Revenue Service issue a private letter ruling with respect to the tax consequences of the Spin-off, including the representation made in Section 9(h) hereof.

10. Representations and Warranties of Spinco. Spinco hereby represents and warrants to Shareholders as follows:

(a) Spinco is a corporation duly organized and validly existing under the laws of the State of Delaware, and is in good standing under the laws of the state of its incorporation. Spinco has all necessary corporate power and authority to execute and deliver this Agreement and perform its obligations hereunder. The execution and delivery by Spinco of this Agreement and the performance by Spinco of its obligations hereunder have been duly and validly authorized by the Board of Directors of Spinco and no other corporate proceedings on the part of Spinco are necessary to authorize the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby.

(b) This Agreement has been duly and validly executed and delivered by Spinco and constitutes a valid and binding agreement of Spinco, enforceable against Spinco in accordance with its terms except to the extent (i) such enforcement may be limited by applicable bankruptcy, insolvency or similar laws affecting creditors rights and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(c) Except for filings, authorizations, consents and approvals as may be required under, and other applicable requirements of, the ICA, (i) no filing with, and no permit, authorization, consent or approval of, any state or federal public body or authority is necessary for the execution of this Agreement by Spinco and the consummation by Spinco of the transactions contemplated hereby and (ii) none of the execution and delivery of this Agreement by Spinco, the consummation by Spinco of the transactions contemplated hereby or compliance by Spinco with any of the provisions hereof shall (A) conflict with or result in any breach of the certificate of incorporation or by-laws of Spinco, (B) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note, loan agreement, bond, mortgage, indenture, license, contract,

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| | | | Southern Pacific Lines non-agreement relocation policy; agreement relocation | The non-agreement policy provides living expenses and miscellaneous expense payments to employees relocated at the Company's request, as well as providing reimbursement for cost of sale (including loss on sale provisions) and/or purchase costs of employee's home. Relocation for agreement employees is set by the various collective bargaining agreements. |
| | | | Southern Pacific Lines non-agreement sick leave policy; agreement sick leave. | The non-agreement sick leave policy provides for up to a maximum of 182 days of paid (full pay) sick leave in the case of an employee's inability to work due to the employees own illness or other medical condition. Generally must have worked 5 years to be eligible for more than 10 days of sick leave. Agreement sick leave is governed by the terms of the applicable collective bargaining agreements; for some crafts that may be entirely superseded by their short term disability policy agreements. |
| | | | Southern Pacific Lines non-agreement vacation policy; agreement vacation and personal days; other paid time off. | Depending on date and company of hire and years of service, non-agreement vacation days range from 10 working days per year to 25 working days per year of paid vacation. Paid time off is also available for non-agreement employees for bereavement (up to 3 days, except in special circumstances) and jury duty. Agreement vacation and personal leave days are determined by the terms of each applicable collective bargaining agreement. Eleven common holidays apply to non-agreement and agreement employees. |
| | | | Employee Stock Purchase Plan ("Merrill Lynch") | Provides almost all employees the ability to purchase shares of SPRC stock through payroll deduction on an after tax basis. The company pays the commissions for purchasing the stock. Merrill Lynch provides the record keeping. |

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| | | | | |
|---|---|---|---|---|
| | | | Employment agreements, including those with severance arrangements and benefit protection arrangements (severance/nonqualified plan enhancements) | See listings and description. |
| | | | SPRC Equity Incentive Plan | Incentive compensation plan providing stock grants to key executives if certain corporate and/or individual performance targets are achieved. See listings. |
| | | | Industrial Compliance Incentive Agreement dated as of August 1, 1993, with Gregory A. Holtman | Provides incentive payments to Gregory A. Holtman, a key management employee of IC, for a period of sixty months if certain internal rates of return are achieved. |
| | | | New York Dock | ICC/statutory labor protection provisions that can apply to persons in agreement and certain non-agreement positions following a merger. |
| | | | Industrial Compliance Variable Incentive Agreement dated as of February 15, 1995, with Dr. Devraj Sharma. | Provides primary and additional incentive payments to Dr. Devraj Sharma, a key management employee of IC (Principia Mathematica Division), at the end of the fifth year after the effective date of the agreement if certain gross revenues are achieved. |
| | | | SP Environmental profit sharing plan | |
| | | | Pacific Motor Trucking Management Incentive Plan | Bonus plan for Pacer division. |
| | | | 1995 ABL-Trans Bonus Plan | Bonus plan |
| | | | Western Railroad Association Retirement Plans | Defined benefit plans sponsored by four lobbying associations (Oregon, Arizona, New Mexico, and Texas) to which the Union Pacific, Southern Pacific, Santa Fe, and Burlington Northern railroads contribute. Plans are sponsored by the associations, not by Company or any of the other railroads. Plans now frozen and in the process of termination. |

0319

| | | | | |
|---|---|---|---|---|
| | | | PS Technology, Inc. Employment Agreement with William D. Falconer | Includes a severance clause providing one year's base salary if terminated without cause. Also includes a bonus compensation payment equal to six months base salary if written notice of intent to resign is provided six months prior to date of termination of employment. |
| | | | PS Technology, Inc. Phantom Equity Plan | Incentive plan. |

0320

## Contractual Supplemental Executive Retirement Plans

Current employees:

C. Y. Harvey
N. R. Kirsch
T. J. Matthews
D. C. Orris
L. R. Parsons
E. P. Reilly
R. F. Starzel
L. C. Yarberry

Former employees not yet receiving supplemental benefits:

E. L. Moyers
E. J. Posey

Former employees or survivors currently receiving supplemental benefits:

G. A. Border
C. J. Burroughs
W. G. Crosby
J. D. Daniels
F. A. Dunham
S. R. Freeman
M. H. Gandy
W. K. Hall
W. C. Hoenig
W. J. Holtman
R. R. Mahon
H. A. Phillips
J. B. Reid
M. L. Russell
R. A. Sharp
L. G. Simpson
J. P. Spiess
W. W. Steiner
V. M. Strange

EQUITY INCENTIVE PLAN
STOCK GRANT PARTICIPANTS

## Stock Bonus Agreements

### I. Special Stock Bonus Agreements

In addition to their participation in Plan A, separate agreements dated April 28, 1994, provide that each executive listed below will earn 16,666 shares of SP Rail Corporation stock on each of January 1, 1996 and January 1, 1997, if they have not voluntarily resigned.

C. Y. Harvey
R. F. Starzel

### II. Other Stock Bonus Arrangements

Messrs. Davis and Orris have letter employment agreements dated February 20, 1995 and February 21, 1995, respectively, which would provide total maximum awards of 270,000 shares for 1995, 1996 and 1997 performance.

R. E. Noorigian has a Stock Bonus Agreement dated January 1, 1993, which would provide a maximum of 8,570 shares for 1995, 1996 and 1997 performance.

### III. PLAN "A" Stock Bonus Agreements

Permits participants to earn a maximum of 60,000 shares of SP Rail Corporation stock if the Company and the participant achieve certain goals for the years 1995, 1996 and 1997 i.e. operating ratio and individual performance commitments.

C. W. Calder[1]
M. S. Galardi
C. Y. Harvey
T. J. Matthews
M. D. Ongerth
L. R. Parsons
E. P. Reilly
P. M. Ruotsi
R. F. Starzel
W. K. Sterett
L. C. Yarberry

### IV. PLAN "B" Stock Bonus Agreements

Permits participants to earn a maximum of 30,000 shares of SP Rail Corporation stock if the Company and the participant achieve certain goals for the years 1995, 1996 and 1997 i.e. operating ratio and individual performance commitments.

---

[1] C. W. Calder will become a Plan B participant if he signs an outstanding agreement to that effect.

M. J. Cronin
R. L. Cross
L. K. Ducken
J. T. Gray
J. A. Holm
D. H. Jacobson
W. N. Jones
B. C. Kane
N. R. Kirsch
J. C. Klaus
G. A. LaValley
L. L. Phipps
W. H. Pohle
P. J. Rickershauser
W. E. Saul
C. T. Shurstad
G. H. Sovey
A. R. Sutherland
J. L. Verhaal
J. H. Wagner
L. P. Warchot
S. M. Wlotko[2]

V. Plan "C" Stock Bonus Agreements

Permits participants to earn a maximum of 6,000 shares of SP Rail Corporation stock if the Company and the participant achieve certain goals for the years 1995, 1996 and 1997 i.e. operating ratio and individual performance commitments.

Administration (Tom Matthews)

| | |
|---|---|
| J. M. Eastman | Director of Employee Benefits & Counsel |
| L. H. Kaufman | Managing Director Corporate Communications |
| W. E. Loomis | Director Labor Relations |
| D. A. Porter | Director Labor Relations |

Finance (Cy Harvey)

| | |
|---|---|
| C. M. Brasher | Assistant Controller |
| J. P. Doherty | Assistant Treasurer |
| S. Jackovich | Assistant Controller |
| M. A. Johnson | Director Financial Reporting |
| G. P. Lindquist | Assistant Vice President Internal Audit |
| K. L. Martin | Director Management Accounting |
| A. P. Paladino | Assistant General Tax Attorney |

Law & General Claims (Cy Harvey)

| | |
|---|---|
| W. M. Bolio | Assistant General Counsel |
| C. A. Harris | Assistant General Counsel |
| D. W. Long | Assistant General Counsel |
| F. H. Parker | General Claims Manager |

[2] Pending Compensation Committee approval.

Purchasing (Cy Harvey)

| | |
|---|---|
| J. W. Davis | Director of Material Management |
| J. J. Smith | Director of Purchasing |

Distribution Services (Don Orris)

Marketing

| | |
|---|---|
| K. H. Adams | Managing Director |
| M. D. Bennish | Managing Director Paper Products |
| W. K. Berry | Managing Director Coal |
| T. A. Brueckheimer | Managing Director Lumber Products |
| A. R. Fjeldsted | Managing Director Grain Products |
| C. F. Penner | Managing Director Industrial Development |
| A. J. Strok | Managing Director Automotive |
| R. S. Fisk | Managing Director Food & Consumer Products |
| J. S. Gehring | Managing Director Chem.& Petrol. Products |
| J. C. Gazzetta | Managing Director Min. & Const. Materials |
| D. W. Veidt | Managing Director Forest Products |

Mexico

| | |
|---|---|
| R. G. Thruston | Managing Director Mexico |

Sales

| | |
|---|---|
| W. B. Cogswell | Managing Director Sales-Oakland |
| G. S. Harrell | Managing Director Sales-Pacific Northwest |
| E. A. Heim | Managing Director Sales-Pacific Southwest |
| L. K. Johnson | Managing Director Sales-Houston |
| J. R. O'Connell | Managing Director Sales-East |
| N. J. Tupper | Managing Director Sales-Southeast |

Intermodal

| | |
|---|---|
| K. R. Anderson | Managing Director Intermodal Sales |
| C. A. Bishop | General Manager Intermodal Term. Operations |
| J. L. Brady | Managing Director National Accounts Int'l |
| J. L. Hovey | Managing Director Domestic Pricing |
| T. J. Hurley | Managing Director Intermodal Marketing |
| A. J. Kielty | Managing Director Intermodal Operations |
| D. L. Richards | Managing Director Intermodal Marketing & Int'l Pricing |
| A. L. Wallace | Director Distribution-Intermodal |

Fleet Management

| | |
|---|---|
| D. J. Blake | Managing Director RBL & Reefers |
| T. W. Florence | Managing Director Offline Fleet Management |
| D. J. Luther | Managing Director Hoppers & Copper Cars |
| S. W. Pemberton | Managing Director Financial & Budget Controls |
| G. A. Sheperd | Managing Director Forest Products |

Customer Service

| | |
|---|---|
| T. L. Franks | Managing Director Transportation Support |
| G. R. Kavan | Managing Director Billing Services |
| S. D. Sigler | Managing Director Customer Service |

Maintenance of Way (Gene Reilly)

| | |
|---|---|
| E. Brown | Manager Engineer Performance |
| K. B. Derr | Asst. Chief Engineer-Signal, Communications & Bridges |
| B. L. Reinhardt | Engineer Maintenance of Way Eastern Region |
| J. A. Rugg | Assistant Chief Engineer |
| T. C. Smith | Chief Environmental Affairs Officer |
| D. T. Wickersham | Engineer Maintenance of Way Western Region |
| J. K. Young | Assistant Chief Engineer-Production |

Mechanical (Jim Wagner)

| | |
|---|---|
| J. B. Harstad | Assistant Chief Mechanical Officer |
| R. L. Havranek | Plant Manager-Roseville |
| L. M. Lawson | Director Car Maintenance/Engineering |
| F. E. McGuar | Manager Mechanical Performance |
| R. K. Robinson | Director Locomotive Maintenance |
| T. P. Russell | Assistant Chief Mechanical Officer-Cars |
| M. M. Starr | Plant Manager-Houston |
| B. J. Trim | Director of Mechanical Plant Operations |

Transportation (Jeff Verhaal)

| | |
|---|---|
| C. L. Alexander | Superintendent-Midwest |
| J. P. Bearden | Director Safety |
| R. F. Belnap | Managing Director Transportation Budgets |
| C. Bradley | Superintendent-San Antonio |
| G. A. Greblo | Superintendent-Denver |
| M. L. Irvine | Superintendent-Los Angeles |
| C. E. O'Hara | Superintendent-Houston |
| T. M. Ryan | Managing Director Transp. Planning & Analysis |
| D. J. Seil | Superintendent-Roseville |
| R. J. Sweitzer | General Manager TSC |
| W. J. Slinkard | Superintendent-El Paso |

## Employment Agreements

I. Agreements with individualized provisions including severance provisions, interest-free home loans and supplemental retirement arrangements:

| Name | Date of Agreement |
|---|---|
| Jerry R. Davis | February 20, 1995 |
| Michael S. Galardi | May 10, 1995 |
| Cannon Y. Harvey | June 1, 1993, April 28, 1994, December 1, 1994, December 30, 1994, June 1, 1995 |
| Thomas J. Matthews | January 15, 1991, June 30, 1993, August 1, 1993, December 1, 1994, January 1, 1995, June 1, 1995 |
| Donald C. Orris | February 21, 1995 |
| Larry R. Parsons | May 24, 1995 |
| Robert F. Starzel | April 28, 1994, October 26, 1994, December 1, 1994, December 30, 1994 |

II. Post employment agreement with Edward L. Moyers dated February 14, 1995.

III. Agreement with a severance clause providing two-years, base salary if terminated without cause. Also provides medical, dental and life insurance coverage for 24 months or until comparable coverage obtained at a new job.

| | |
|---|---|
| W. Kent Sterett | September 24, 1990 |

IV. Agreement with a severance clause providing one year's base salary if terminated without cause. Also provides medical, dental and life insurance coverage for 12 months or until comparable coverage obtained at a new job:

| Name | Date of Agreement |
|---|---|
| William K. Berry | April 2, 1992 |
| C. Wayne Calder | January 27, 1994 |
| Roy B. Carlson[1] | June 1, 1993 |

[1] Benefits not continued.

| | |
|---|---|
| Michael J. Cronin | August 31, 1994 |
| Robert B. Cross | July 9, 1991 |
| John T. Gray | August 31, 1992 |
| Mark A. Huston | November 19, 1990 |
| Dennis H. Jacobson | May 7, 1991 |
| Lawrence H. Kaufman[2] | February 3, 1995 |
| Norman R. Kirsch | October 26, 1990 |
| John C. Klaus | May 5, 1994 |
| George A. LaValley | November 30, 1994 |
| C. Edward O'Hara | March 27, 1995 |
| Mary A. Powell | January 29, 1991 |
| Peter J. Rickershauser | September 23, 1991 |
| Eugene P. Reilly | January 27, 1994 |
| Peter F. Rousselot[3] | August 19, 1994 |
| Dennis L. Richards | May 13, 1992 |
| Jerry A. Rugg | March 7, 1995 |
| Peter M. Ruotsi | October 26, 1990 |
| C. Thomas Shurstad | March 8, 1995 |
| A. Robert Sutherland | February 28, 1994 |
| Timothy C. Smith (expires 12/31/97) | May 18, 1995 |
| Robert J. Sweitzer | March 7,1995 |
| Donald W. Veidt[4] | July 19, 1993 |
| Jeffrey L. Verhaal | March 2, 1995 |
| Robert E. Wernly | January 5, 1993 |
| Lawrence C. Yarberry | February 1, 1993 |

V. Benefit Protection Agreement providing for either (a) a maximum of 65 weeks base salary or (b) if at least age 55 a combination of an enhanced pension and 26 weeks base salary. The benefits are payable immediately upon the employee's election to terminate employment.

| Name | Date of Agreement |
|---|---|
| Alder R. Fjeldsted | August 23, 1989 |
| Richard C. Hagaman | August 23, 1989 |
| Judith A. Holm | November 27, 1991 |
| Gene P. Lindquist | August 10, 1989 |
| Brian N. Mahaffey | August 23, 1989 |
| Richard C. Schulte | August 11, 1989 |
| Gerald J. Sheridan | August 23, 1989 |
| S. Connie Sigg (on LTD) | August 14, 1989 |

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[2] Provides for an employment relationship through May 1997.

[3] Or base salary for period between termination and August 31, 1997 if less than 12 months. Benefits not continued.

[4] Benefits not continued.

VI. Agreement with Robert E. Noorigian dated November 5, 1993 which provides a stock bonus agreement covering up to 10,000 shares under the Southern Pacific Rail Corporation Equity Incentive Plan.

## Schedule 3.9(a)(ii)

## Schedule of Commitments to Add or Change Plans

1. Association of Railway Technical Employees ["ARTE"] have bargained to be covered by the national rail agreement employee medical, dental, and life plan instead of by SPRC's Benefit Choices medical, life, and dental. The change will be effective October 1, 1995.

2. "Gainsharing" terms in the collective bargaining agreements with several rail crafts call for a bonus [3% of compensation] to be paid in the first quarter if the executive stock grant bonuses are triggered or paid. The employees are to have an election of receiving the bonus in cash or SPRC stock, with a choice between receiving it directly or into the BLE, etc. 401(k). The Company has the option of not making stock available as an option. If the executive stock bonus program is terminated, the agreement employees can serve Railway Labor Act section 6 notices. The "gainsharing" agreements will require amendments to the 401(k) plan (a) to authorize SPRC stock to be held in the plan and (b) to permit employees with less than one year of service to contribute their gainsharing contributions to the plan.

3. Under agreements with the BLE, SPT, SSW, the DRGW, and SPCSL will provide company-paid life insurance of $40,000 and company-paid accidental death and disability ["AD&D"] of $42,000, beginning October 1, 1995. The contract calls for the total coverage, when combined with that under the National plan [GA-23000] to be the IRS tax-free limit for life insurance, and double that for AD&D. SPT, SSW, the DRGW, and SPCSL have also agreed to work with BLE to establish voluntary deduction programs for those employees who desire to purchase additional life insurance and/or vision care coverage.

4. Under agreements with the BLE, SPT and SSW will allow annual special elections as to whether all of certain bonus payments (other than withholdings, and subject to IRS limits) may be contributed to the SP Savings Plan for BLE (the BLE's 401(k)). (This will be similar to what is done for one other current union group.)

5. Each Fall for the past few years the Company has adjusted benefits or employee premiums under the SPRC Medical and Life Plans (a) to reflect changes in wages and life insurance rates and (b) to try to keep the Company's total per employee and retiree costs within set limits. This has included benefit design changes for the medical and dental elements, as well as increasing participant premiums. In 1995, a second Medicare risk product was introduced. For 1996, similar changes are under consideration, as well as additional Medicare risk products

and changes to the pharmacy benefit and provider. The acquisition of stop loss coverage is also under consideration. Federal HMO legislation may cause the Company to need to change employee and retiree premiums for those participants electing HMO coverage for 1996. Participant premium changes are also under consideration with a view to trying to induce more participation in lower cost HMO and Medicare risk products.

6. The Company will be continuing the Distribution Services Incentive Program, under which line Marketing & Sales employees can earn 1.25% of annual salary per quarter (5% annualized rate) by meeting revenue goals.

## SCHEDULE 3.9(b)

### Amounts Accrued but not Reflected on Balance Sheet

- None

## Schedule 3.9(c)

## Benefit Plans Compliance Schedule

1. There was an unallocated asset in the SPRC Thrift Plan, consisting of stock of Santa Fe Pacific Corporation, Catellus, Santa Fe Energy, and Santa Fe Gold from a "frozen" stock account [sales only; no new purchases since October 1988]. Now only proceeds of disposition remain. The unallocated shares arose from the valuation procedures used in 1988 and 1989 for sales of Santa Fe Pacific Corporation stock, which looked to month-end values without regard to actual sale proceeds realized. The other three stocks were later spin-offs. They were valued at less than $200,000, of which over $100,000 was used to pay plan expenses in 1994 and 1995. An IRS VCR filing is planned.

2. The SPRC Pension Plan, between the effective date of ERISA (1-1-76) and the mid or late 1980's, failed to treat as vested approximately 43 participants who had at least 10 years of vesting service but less than 10 years of benefit service, and 1 participant who had over 10 years of benefit service but had been recorded as having less than 10 years of benefit service. As a result, those participants were not notified of their vested rights, and (for some) benefits were not commenced at age 65. Data is being gathered and an IRS VCR filing is planned. The only calculation completed so far is for the person who had over 10 years of benefit service; he is now 70, and the single life benefit amount is $244.10 per month, with $18,213.03 of arrearages (including interest) on a single life basis through August 1995. The participant is married, and will have the choice of the single life benefit or the other, actuarially equivalent forms permitted under the plan.

3. In 1992, a VEBA at SPMT to provide health and welfare benefits to clerks pursuant to a collective bargaining agreement was terminated, and the $511,717 balance in the VEBA was transferred to the PMT-BRAC Clerical Employees Pension Plan. At the time there were no active employees covered by the underlying plan or VEBA (the last having been terminated in 1989), and the only benefit provided through the VEBA was a death benefit and the persons entitled to such were also participants in the Pension Plan. The Pension Plan was also collectively bargained, and at the time the VEBA was terminated, the Pension Plan was amended to provide a death benefit to the former employees who would have been entitled to such under the VEBA. The Pension Plan is administered by labor and management trustees who have retained their own counsel, actuaries, and accountants, and the changes were apparently undertaken based on the advice of counsel to the plans. The Company is seeking additional information.

4. By a letter dated July 17, 1995, the Western Conference of Teamsters Pension Trust has demanded from SPMT approximately $28,000 (including interest) with respect to allegedly under-reported contributions identified in a Fund audit of the period July 1, 1992 through June 30, 1994. SPMT is reviewing the audit report to determine whether to contest any or all of the demand.

5. In 1994, the SPRC Pension and Thrift Plans identified that they had failed to start benefits timely as required by IRC section 401(a)(9) as to one non-highly compensated employee still working at SPT. They began her benefits in 1994, and submitted a VCR request, which has been acknowledged as received by the IRS. In 1995, the SPRC Thrift Plan identified one non-highly compensated participant who contributed a small amount in excess of the IRC section 415 limit as a result of his high contribution to the dependent care plan. The Company will be making a corrective distribution, and will probably include the item in its VCR filing for the Thrift Plan concerning the unallocated Santa Fe Pacific stocks.

6. As additional information, while it is Company's position that these are not ERISA plans of the Company, there are four separate retirement plans for four lobbying associations (Oregon, Arizona, New Mexico, and Texas) to which the Union Pacific, Southern Pacific, Santa Fe, and Burlington Northern railroads had belonged. (Collectively, the plans have been referred to as the Western Railroad Association Retirement Plans.) The plans have had a number of potential compliance issues identified in communications covered by the attorney-client privilege, which communications have included in-house counsel participation for counsel for both Parent and Company.

## Schedule 3.9(e)

## Title IV Plans

1. SPRC maintains the Southern Pacific Rail Corporation Pension Plan, a single employer defined benefit plan subject to Title IV of ERISA.

2. SPMT is the sponsor of the PMT-BRAC Clerical Employees Pension Plan, a single employer defined benefit plan subject to Title IV of ERISA. The plan is a jointly administered ("Taft Hartley") plan, covering agreement clerks. There are no current active covered employees.

3. SPMT contributed to the Central States Southeast and Southwest Areas Pension Plan until it withdrew from that plan in late 1993. That plan is a multiemployer pension plan subject to Title IV of ERISA. Based on credits from payment of a prior (already fully paid) assessment, SPMT was advised by Central States that it would have no withdrawal liability for a 1993 complete withdrawal, and SPMT expects to incur no withdrawal liability for its withdrawal from the Central States plan.

4. SPMT contributed to the Western Conference of Teamsters Pension Plan until it withdrew from that plan in 1994. That plan is a multiemployer pension plan subject to Title IV of ERISA. The 1993 Summary Annual Report for that plan indicates that it was fully funded on a withdrawal liability basis from 1988 through 1993, and SPMT therefore believes that it has no withdrawal liability to that plan.

5. SPMT has been audited by Central States and Western Conference plans from to time to time concerning contributions. By a letter dated July 17, 1995, the Western Conference of Teamsters Pension Trust has demanded from SPMT approximately $26,000 (including interest) with respect to allegedly under-reported contributions identified in a Fund audit of the period July 1, 1992 through June 30, 1994. SPMT is reviewing the audit report to determine whether to contest any or all of the demand.

6. As additional information, while it is Company's position that it has no ERISA Title IV liability as such in connection therewith, there are four separate retirement plans for four lobbying associations (Oregon, Arizona, New Mexico, and Texas) to which associations the Union Pacific, Southern Pacific, Santa Fe, and Burlington Northern railroads had belonged. (Collectively, the plans have been referred to as the Western Railroad Association Retirement Plans.) The associations are considering terminating all of the retirement plans, and it appears that at least two of them (Arizona and Texas) will require additional

funding in order to be able to terminate. In-house counsel for Parent and Company have been among those involved in meetings and conference calls relative to these plans.

# Schedule 3.9(f)

## Schedule of Post-Employment Medical and Death Benefits

**The statements below concerning the ability to terminate or amend welfare plans providing medical or death benefits to current or former employees beyond the employees' termination is based on the Company's best current belief from analyses done, from time-to-time and in varying degrees, but not all plans have been thoroughly analyzed and the area in general is uncertain. The Company does not represent or warrant that any of these plans can be amended or terminated.**

1. The Southern Pacific Rail Corporation Life Insurance Plan (no. 564) provides for post-retirement life insurance coverage. It is doubtful the plan could be terminated or materially amended. The Company also incurs conversion charges when persons formerly covered by the plan convert to individual coverage.

2. The Southern Pacific Rail Corporation Medical Plan (no. 565) provides for post-retirement medical coverage. While the Company believes it can modify or terminate the retiree medical coverage, that is not certain.

3. The Southern Pacific Rail Corporation Long Term Disability Plan (no. 562) provides for continuation of medical, dental, and life benefits for eligible disabled employees, up until they retire or otherwise lose long term disability coverage. If they retire with a company pension from LTD status, they can continue some medical and life coverage into retirement under the above two listed plans.

4. The Pacific Fruit Express Life Insurance Plan (no. 509) provides for post-employment continuation of life insurance coverage. It is doubtful the plan could be terminated or materially amended. The Company also incurs conversion charges when persons formerly covered by the plan convert to individual coverage. There could also be labor law difficulties in the employer's canceling this coverage as to the active employees who are all are rail union employees.

5. The Southern Pacific Life Insurance Plan (no. 511; Metropolitan 2000-G) provides for post-employment continuation of life insurance coverage. It is doubtful the plan could be terminated or materially amended. The Company also incurs conversion charges when persons formerly covered by the plan convert to individual coverage. There could also be labor law difficulties in the

employer's canceling this coverage as to the active employees who are all are rail union employees..

6. The Southern Pacific Motor Trucking Life Insurance Plan (no. 649) provides for post-employment continuation of life insurance coverage. It is doubtful the plan could be terminated or materially amended. The plan currently covers only retirees.

7. The Railroad Employees National Health and Welfare Plan ["GA-23000"] includes $2,000 of post-retirement life insurance coverage. This is a multiemployer plan, and the Company can not unilaterally change the plan or end the benefit involved.

8. The Railroad Employees National Early Retirement Major Medical Benefit Plan provides a bridge medical benefit to Medicare for qualifying rail agreement employees. This is a multiemployer plan, and the Company can not unilaterally change the plan or end the benefit involved.

9. SPT and certain of its ERISA affiliates have offered severance arrangements to certain non-union and union employees and groups which have included providing medical coverage for a set time or until the employees are of Medicare age or are eligible for retirement. If the medical plan were terminated or their coverage ended, the Company would not prevail as to some and would probably not prevail as to most others of these groups.

## Schedule 8.9(h)

## Items Triggered by Consummation of the Transactions

1. As provided in section 5.6.

2. The SP Environmental Systems, Inc. Growth Share Plan has provisions which may accelerate vesting and benefits payment in change of control circumstances.

## Schedule 8.9(i)

## Excise Taxes

1. Excise taxes or penalties may be due with respect to some of the events listed in Schedule 8.9(c). See also Schedule 8.9(l).

2. An excise tax under section 4979 of the Code of approximately $4,000 will be due for plan year 1994 for the Southern Pacific Savings Plan for the Brotherhood of Locomotive Engineers, United Transportation Union, and American Train Dispatchers Department -- BLE for excess deferrals under the ADP test that were not refunded within 2-1/2 months of the end of the 1994 plan year.

3. Excise taxes under sections 4999 and 280G of the Code may be triggered by Benefit Plans.

# Schedule 8.9(j)

## Multiemployer and Multiple Employer Plans

There are a number of multiemployer Benefit Plans, which are identified as such in Schedule 8.9(a)(i). They are:

**Current plans**

| | | |
|---|---|---|
| 501 | 12/31 | Allied Services Division Welfare Fund |
| 501 | 12/31 | Railroad Employees National Health and Welfare Plan |
| 502 | 12/31 | The Maintenance of Way Employees Supplemental Sickness Benefit Plan |
| 505 | 12/31 | The Railroad Employees National Dental Plan |
| 506 | 12/31 | The Railroad Employees National Early Retirement Major Medical Benefit Plan |
| 508 | 12/31 | The Supplemental Sickness Benefit Plan Covering Railroad Shop Craft and Signal Employees |

**Prior plans**

| | | |
|---|---|---|
| | | Central States Health and Welfare and Pension Plans (complete withdrawal in 1993) |
| | | Western Conference of Teamsters Health and Welfare and Pension Plans (complete withdrawal in 1994) |

## Schedule 3.9(l)

## COBRA and Medicare Secondary

1. Most of the Company's employees are covered by multiemployer medical plans, and the Company relies on those plans for compliance with Sections 4980B and 5000 of the Code as to those employees. The Company has received numerous items of correspondence from agents for Medicare with respect to whether the Railroad Employees National Health and Welfare Plan had made proper payment in particular cases, which correspondence the Company has forwarded to that plan's administrator.

2. With respect to the SFRC medical plan, the Company has disputed a demand for payment from a Medicare agent for the spouse of one now retired employee, based on the statute of limitations and Health Ins. Ass'n. of America, Inc. v. Shalala, 23 F.3d 412 (D.C. Cir. 1994).

**SCHEDULE 3.9(m)**

## Labor Agreements

Southern Pacific, in the ordinary course of business, will continue to negotiate collective bargaining agreements with its labor unions. A current report (two pages) on the Status of Contract Negotiations is attached.

# STATUS OF CONTRACT NEGOTIATIONS

UTU(T) Western Lines: Settled. Amendable 1/1/98. Section 6 Notice 1/1/97.

UTU(S) Western Lines: Settled. Amendable 1/1/98. Section 6 Notice 1/1/97.

UTU(E) Western Lines: Amendable 1/1/95. Section 6 Notices could have been served 11/1/94 but none have been served to date. No discussions are scheduled.

UTU(T)&(S) Cotton Belt: Settled. Amendable 1/1/98. Section 6 Notice 1/1/97.

UTU(S) Eastern Lines: Settled. Amendable 1/1/98. Section 6 Notice 1/1/97.

UTU(T) Eastern Lines: Amendable 1/1/95. Section 6 Notices could have been served 11/1/94 but none have been served to date and discussions are continuing.

UTU(E) Eastern Lines: Amendable 1/1/95. Section 6 Notices could have been served 11/1/94 but none have been served to date. The General Chairman of this group is taking a position with Charlie Little in Cleveland and this group will likely be folded in with the UTU(S) Eastern Lines.

UTU(T)&(S) SPCSL: Amendable 1/1/96. Section 6 Notices 11/1/95.

UTU(T)(S)&(E) D&RGW: covered by the national agreements. Amendable 1/1/95. Section 6 Notices could have been served 11/1/94 but none have been served to date. Byron Boyd is currently assigned as the V.P. Non Section 6 discussions are scheduled for 8/14-8/15 and 9/12-9/13.

BLE: We have 5 separate contracts (Western Lines, Eastern Lines, Cotton Belt, SPCSL and D&RGW). Their agreements were amendable 1/1/94 and Section 6 Notices could have been served 11/1/94, however, the parties agreed to enter into Non Section 6 negotiations on a system-wide basis. Ron Dean was the assigned V.P. A settlement was reached and all but the Western Lines have ratified. We expect ratification on the Western Lines by 9/1/95.

Dispatchers: Settled. Amendable 1/1/98. Section 6 Notice 1/1/97.

Yardmasters: Settled. Amendable 1/1/98. Section 6 Notice 1/1/97.

Mechanical Supervisors-TCU: Amendable 1/1/95. Section 6 Notices could have been served 11/1/94 but none have been served to date. No discussions are scheduled.

Signalmen/ARTE (technical employees): Settled. Amendable 1/1/98. Section 6 Notice 1/1/97, however, a wage reopener Section 6 Notice can be served 7/1/96.

ICTF/OAK Intermodal Ramps: Settled. Amendable 1/1/98. Section 6 Notice 1/1/97.

TCU Clerks/PFE: Amendable 1/1/95. Section 6 Notice served 11/1/94. Settled many issues but not wages. TCU studying offer to use interest arbitration to settle wage dispute.

Machinists, Electricians and Sheetmetal Workers: Amendable 1/1/95. Section 6 Notices could have been served but none have been served to date. Non Section 6 discussions continue on 8/29-8/30.

Laborers and Firemen and Oilers: Amendable 1/1/95. Section 6 Notices could have been served 11/1/94 but none have been served to date and there have been no discussions.

Carmen: Amendable 1/1/95. A Section 6 Notice was served by TCU on 11/1/94 and, thereafter, Non Section 6 discussions were held. The parties have mutually agreed to recess talks until the national negotiations are resolved.

Maintenance of Way: Amendable 1/1/95. Section 6 Notices could have been served 11/1/94 but none have been served to date. Non Section 6 discussions are scheduled to resume 8/17 and 8/18.

## SCHEDULE 3.11

## No Default

- None

## SCHEDULE 3.12

### Taxes

See Attached

# SECTION 3.12: DISCLOSURE SCHEDULE

3.12 (a) In addition to the disclosures made in this schedule, the Company has provided the documents listed on the annexed Exhibit A. The information contained in such documents is incorporated by reference into this disclosure schedule for the relevant representations.

3.12 (a) (ii) The Company's railroad subsidiaries have taken the position for purposes of section 3221 of the Internal Revenue Code that the supplemental annuity tax is reportable only for hours actually worked by an employee. The Internal Revenue Service has taken the position that the tax is due for all hours for which an employee is paid. This issue is present for the years 1987 through 1993. The Company has reached a basis of settlement with the Internal Revenue Service such that the Company's liability is fully accrued on the Company's financial statements.

3.12 (a)(iii) The Company and its subsidiary, Rio Grande Holding, Inc., have two cases pending in the United States Tax Court for 1979, 1980, 1982, 1983 and the period ending October 31, 1984. Rio Grande Holding and its subsidiaries are also part of the litigation in the Tax Court conducted by its former parent, The Anschutz Corporation, for the periods ending July 31, 1985, July 31, 1986, and July 31, 1987. Rio Grande Holding and its subsidiaries are also subject to audit adjustments for the periods ending July 31, 1988, and October 13, 1988.

Southern Pacific Transportation Company and its subsidiaries are included in their former parent's, Santa Fe Pacific Corporation, audit for the years 1984, 1985, 1986, 1987 and the period ending October 13, 1988. The Company's federal income tax returns are under audit for 1991, 1992 and 1993.

The following state audits are in progress:

SPT California Sales and Use Tax
Years 1989 - 1993
SPT Texas Sales and Use Tax
Years 1991 - 1993
SPT Arizona Motor Fuel Tax
Years 1990 -1992
SSW Missouri Corporation Income and Franchise Tax
Income Years 1991, 1992, 1993
Franchise Years 1992, 1993 1994
SSW Illinois Sales and Use Taxes
Years 1992 - 1994
SPCSL Illinois Sales and Use Taxes
Years 1992 -1994

SPT Louisiana Parishes
Years 1992 - 1995

The following are currently under protest or at hearing level:

SPT Arizona Sales and Use Tax
July. 1985 through June. 1989
SPT Arizona Sales and Use Tax
July 1989 through 1993
SPT Texas Sales and Use Tax
Years 1988 - 1991
SPT/SSW Texas Franchise Tax
Years 1989 - 1993

The following are audits expected to commence in 1995 or later:

Arkansas - SSW
Corporation Income Tax 1991 - 1993
Arizona - SPT
Corporation Income Tax 1991 - 1993 (Consolidated Return)
California-SPRC
Franchise Tax Audit 1990 - 1993 (Combined/Consolidated Return)
Colorado
Sales and Use Tax DRGW July 1992 - present (3 year statute)
Corporation Income Tax 1991 - 1993 (SPRC Combined Return)
(1 year after filing period for federal)
Illinois
Corporation Income Tax SSW 1991 - 1993 (Rail Group only-Combined Return)
(3 year statute)
Kansas
Corporation Income Tax 1991 - 1993 (Rail Group only-Combined Return)
(3 year statute)
Louisiana
Sales and Use Tax SPT/SSW 1991 - 1993 ((3 year statute)
Corporation Income/Franchise Tax 1991 - 1993
New Mexico
Gross Receipts, Compensating and Withheld Income Tax SPT/SSW/DRGW 1991 - 1993 (3 year statute)
Corporation Income Tax 1991 - 1993 (Rail Group only-Combined Return)

Oregon

Excise Tax Return, 1991-1993 (Consolidated Return)

Texas

Sales and Use Tax SSW July 1991 - 1994 (4 year statute)

Utah

Corporation Franchise Tax 1991 - 1993 (Consolidated Return) (3 year statute)

Sales and Use Tax SPT/DRGW 1992-present

The following audits are currently in progress and are being handled by SFP:

Arizona Corporation Income Tax

Years 1969 - 1988

California Franchise Tax

Years 1984 -1988

New Mexico Gross Receipts

Years 1981 - 1985

3.12 (b)(ii) Section 481 adjustment was made with respect to accounting for track structure.

## Exhibit A to Section 3.12 Disclosure Schedule

- Tax basis investment study of SPT conducted by Price Waterhouse and provided by SFP to SPT by letter dated January 17, 1989

- The following list of major accounting methods used for tax if different than book (i.e., revenue recognition, bad debts, etc.)

  See schedule M to federal tax return
  Letter of May 9, 1991 enclosed (expensing of track)
  Recapitulation of Replacement Fund Transaction
  12/31/93 Schedule M work paper re SP Telecom dividend treatment
  1st page of Jt partnership agreement ABO System Development Venture

- The following tax allocation agreements or any other type of tax sharing arrangements entered into by any entity within the group:

  RGI tax allocation agreement effective January 1, 1992
  Article XIV of the Share Purchase agreement with SFP
  California Power of Attorney granted to SFP 1984-10/13/88
  Paragraph 3 of the Settlement Agreement and Release dated April 4, 1994
  State Tax Allocation Agreement with SP Telecom, effective June 30, 1992

- Schedule of state taxes by type and Locality (Taxing authority) paid for the last three years.

- The following calculation of the effective current and deferred income tax rate used for the past three years:

  Detailed calculation of the effective current and deferred income tax rate used for 1992, 1993 and 1994 for SPRC group, SPEvS group, SPT group, and RGH group.
  SPTC Holding, Inc. & Subs Deferred Tax Analysis
  12/31/88 and 10/13/88
  Comparison of effective tax rates for Kansas 1994 vs 1995 to explain different effective tax rates
  Summary of Effective Federal and State Tax Rates

- The following lists of state and Federal credit or net operating loss carryforwards including company and year generated and year of expiration
  Federal net operating loss carryover summary
  Federal Alternative Minimum Tax Net operating loss carryover summary
  Federal AMT credit carryover summary

Federal AMT Net cumulative positive adjustments summary
Federal charitable contributions carryover summary
Federal Investment Tax Credits Carryover summary
Federal Percentage Depletion carryover summary
State Net Operating Loss summary
Computation of Limitation under Sec. 382 on NOLs
Memoranda by J. D. Butler (HRO) 2/18/94 and D. R. Child 8/11/94 explaining computation of 382 limitation

- The following copies of major Federal and major state income/franchise tax (CA, AZ, NM, TX, AK [sic Arkansas], UT, CO, IL, KS) returns for the past three years:

  Federal and listed State returns for 1991, 1992 and 1993
  and the following requested returns: Oregon Excise tax for 1991,1992 & 1993 Louisiana Franchise tax returns for 1992, 1993 & 1994 (SPT & SSW) and Missouri income tax return for 1991, 1992, &1993 for SSW
  1st page of CT-1 for SPT, DRGW, SSW(1991-94), SPCSL (1991-93), PFE (1994, 93 &91) and NWP (1991)
  Memorandum dated July 25, 1995 from Williams & Jensen explaining that no 1120POL is due for the Southern Pacific Political Action Committee

- Listing of property tax assessed values & taxes for SPT, DRGW, SSW and SPCSL for 1989 through 1994

- The following copies of federal revenue agent reports for all open years

  RAR and protest for the 7/31/89, 12/31/89 and 1990 tax years
  Engineer's report for the same period dated December 30, 1993
  Employee Coverage Report conducted by the RRB July 1995
  Data Processing Consultants
  Medical Consultants
  Environmental Consultants

- The following detail of the issues and dollars at stake for all years at appeals and litigation:

  Statutory Notice, Petition and answer for the docketed cases
  Rio Grande Holding v. Commissioner, 1980, 1983 and 1984/10
  " " " " 1979 and 1982
  Statutory Notice and Petition
  The Anschutz Corporation & Subsidiaries v. Commissioner
  7/31/85,7/31/86 & 7/31/87
  Protest filed re employment taxes for 1988-1991
  Schedule to SAT settlement with the IRS for 1987 through 1993

## SCHEDULE 3.14

### Assets; Real Property

**Mortgages**

- SPCSL — $10MM 1st Mortgage and Security Agreement 8/1/88 between Chicago, Missouri & Western Railway Company and the Illinois Development Finance Authority (assumed by SPCSL Corp. 11/8/89) covering substantially all SPCSL real property

- SPCSL — 2nd Mortgage and Security Agreement - same property - SPCSL Corp. and Federal Railroad Administration 7/20/90 and amended 6/28/91, 6/26/92, 9/30/93 $12.49MM

- SPTC — 1st & Refunding Mortgage as of 8/1/58 8.2% Series B due 2001, 4th Supp. Indenture 12/1/76 covering a portion of the rail lines of SPTC generally (San Francisco to Ogden, San Jose to Natron, Ore.), approximately $35 MM

  Intermodal Container Transfer Facility ICTF, $48.3 MM

## SCHEDULE 3.15

### Environmental

- None

## SCHEDULE 3.16

### Transactions with Affiliates

- See letter dated as of the August 1, 1995 from the Company to the Parent
- See attached list

Southern Pacific Lines

Southern Pacific Building • One Market Plaza • San Francisco, California 94105

R. F. Starzel
Vice Chairman

August 1. 1995

Union Pacific Corporation
1416 Dodge Street
Omana. Nebraska 68179

Re: Affiliate Transactions

Gentlemen:

As we have previously discussed, we are currently considering several transactions with affiliates of Philip F. Anschutz.

1. Seventh and Wazee. The Company owns approximately 49 acres of land in lower downtown Denver which are suitable for development as a new indoor sports and entertainment arena. The proposal for a new arena has been the subject of extensive negotiations with the City. An affiliate of The Anschutz Corporation has been negotiating since mid-1994 to purchase this parcel for $20,000,000 (with the price to be confirmed by a new appraisal of the property). Up to $3,000,000 of the purchase price may be placed in escrow to pay environmental and flood plain costs. and the Company may remain liable for certain environmental costs. The transaction will be on terms similar to comparable real estate sales made by the Company.

2. The Cornfield Yard. The Company owns approximately 45 acres of land near downtown Los Angeles which are suitable for development of a new indoor sports and entertainment arena. Majestic/Anschutz Venture L.P., a Delaware Limited Partnership owned equally by Majestic Realty and an affiliate of The Anschutz Corporation, are in the preliminary stages of studying the feasibility of a sports and entertainment arena at this site. They have expressed an interest in acquiring the Cornfield site from the company at its fair market value, which would be determined by appraisal. The transaction, if completed, will be on terms similar to comparable real estate sales made by the Company and may contain some environmental indemnities but no significant problems are known to exist..

3. Pacific Pipeline Easement. Pacific Pipeline System. Inc.. a corporation in which an affiliate of The Anschutz Corporation has a significant interest, already holds an easement to build a pipeline on SP's right-of-way in California (a copy of which has been provided to you during your due diligence). Pacific Pipeline has encountered regulatory delays that necessitate changing the required commencement dates. It also has revised the alignment of the proposed pipeline in a manner such that the initial phase of this pipeline will be constructed on significantly less land covered by the easement granted by this corporation than originally planned. However, Pacific Pipeline would like to maintain its rights over the entire easement for future use. Because Pacific Pipeline initially will be using much less land than originally planned, it has requested a reduction of its rental payment. The rent, however, would be restored to the original rate if at any time in the future Pacific Pipeline uses that portion of the easement which will not be utilized in the presently proposed alignment. A copy of the proposed amended easement agreement, machine marked to show the proposed changes, is enclosed.

4. Fiber Optic Easements. Consistent with past practice, from time-to-time the Company expects to grant additional fiber optic easements to QWest Communications, a corporation affiliated with The Anschutz Corporation, on terms representing fair value for the rights granted.

Each of these transactions will only be completed after obtaining appraisals or fairness opinions, and an examination of their fairness and approval by a committee of directors unaffiliated with the Anschutz organizations.

Very truly yours,

SOUTHERN PACIFIC TRANSPORTATION COMPANY

## RELATED PARTY AGREEMENTS

1. Fuel Trading Agreement with Anschutz Marketing and Transportation Company (AMT) dated as of March 1, 1991, as amended.

2. Fuel Purchase Agreement with AMT dated as of January 1, 1991, as amended.

3. Fuel Service Agreement with AMT dated as of September 1, 1993, as amended.

4. Master Energy Price Swap Agreement with Morgan Stanley Capital Group, Inc. dated as of March 15, 1991.

5. Mineral Estate Management Agreement with The Anschutz Corporation dated as of November 1, 1988, as amended.

6. Aircraft Usage Letter from The Anschutz Corporation dated October 11, 1988.

7. Ansco Train Agreement with ANSCO Investment Company dated October 10, 1988, as amended (including subsequent entry agreement, license agreement and switching letters, as amended).

8. SPT Easement Agreement with Southern Pacific Telecommunications Company (SP Telecom) dated September 30, 1991, as amended and clarified.

9. DRGW Easement Agreement with SP Telecom dated September 30, 1991, as amended and clarified.

10. SPCSL Easement Agreement with SP Telecom dated September 30, 1991, as clarified.

11. SSW Easement Agreement with SP Telecom dated September 30, 1991, as amended and clarified.

12. Telecommunications Services Agreement with Qwest Communications Corporation (formerly SP Telecom), dated as of July 1, 1995, as amended August 3, 1995.

13. Easement Agreement with Pacific Pipeline Systems, Inc. dated as of April 1, 1992.

14. Hunting and Use Agreement with Equus Farms, Inc. dated June 1, 1993.

15. Month to month service with Qwest Communications Corporation (formerly SP Telecom) for video conference service.

16. Ongoing use of railcars owned by TAC or an affiliate for payment of going rate.

17. Amendment to easement agreements listed above (8, 9, 10 and 11) with Qwest approved by the Company's board at July 1995 meeting.

## SCHEDULE 5.1

### Interim Operations of the Company

(b) None

(c) (i) Any amendments to articles resulting from a permitted merger or other transaction permitted under Section 5.1(j); any merger solely for reincorporation;

(ii) dividend payments by SSW to the FRA under the Company's SSW Preference Shares described in Schedule 3.2(a);

(iii) the $400 million accounts receivable facility to replace the existing facility of the Company's railroad subsidiaries that expires in October 1995; transfers of assets pursuant to Real Estate Joint Ventures; provided that no Anschutz Holder or any of their affiliates (other than the Company and its Subsidiaries) has any direct or indirect interest in such Real Estate Joint Venture;

(iv) purchases or redemptions of the less than .1% of the outstanding shares of common and preferred stock of SSW owned by persons other than a Subsidiary of the Company; ongoing open-market purchases under the thrift plan, Merrill Lynch plan or Brotherhood of Locomotive Engineers.

(g)(i) Debt increases resulting from changes in the application of generally accepted accounting principles.

(g)(iii)

- loans, advances, capital contributions or investments made in connection with any Railroad Joint Ventures, Real Estate Joint Ventures, the trash project referenced on Schedule 3.2(a) and arrangements with property owners and waste disposal firms relating to the haulage and disposal of trash similar to such trash project; provided that no Anschutz Holder or any of their affiliates (other than the Company and its Subsidiaries) has any direct or indirect interest in such Railroad Joint Venture or Real Estate Joint Venture.

- loans, advances, capital contributions made in connection with the privatization of Mexican railroads.

(j) Any intersubsidiary merger, consolidation or reorganization involving the railroad Subsidiaries of the Company, provided the resulting or surviving entity is a Subsidiary.

(m) Continuing activities under any of the agreements or arrangements disclosed in Schedule 3.16 and new agreements and arrangements entered into as disclosed in Schedule 3.16.

## SCHEDULE 5.6

## Employee Benefits

(See attached)

## Section 5.6(d) of Disclosure Schedule

The Company may make MCP Awards in an aggregate amount up to $15,700,000. However, the awards to the following individuals shall not exceed the amounts stated opposite their names:

| | |
|---|---|
| J. Davis | $1,400,000 |
| C. Harvey | $700,000 |
| T. Matthews | $700,000 |
| D. Orris | $900,000 |
| L. Parsons | $700,000 |
| B. Starzel | $700,000 |

The Company will use its best efforts to create a Management Continuity Plan which will achieve the objectives stated in Section 5.1(a) of the Agreement.

## Section 5.6(e) of the Disclosure Schedule

I. The Enhanced Severance Program will consist of the three parts described below:

Program "A" - A program that provides an amount equal to one year's base salary for an employee, plus all amounts payable to such employee under any existing employment agreement, or if no employment agreement is in effect, under the applicable Company severance policy as in effect on the date of the Agreement.

Program "B" - A program that provides an amount equal to 18 months base salary for such employee, reduced by the severance otherwise payable under any existing employment agreement, or if no employment agreement is in effect the applicable Company severance policy as in effect on the date of the Agreement.

Program "C" - A program that provides an amount equal to one year's base salary, reduced by any amounts otherwise payable to such employee for severance;

The aggregate cash severance payment cap (not including home loans, automobiles and other miscellaneous items covered by contracts) within each of the Program "A", "B" and "C" groups (under any existing employment agreement,

applicable Company severance policy and this Enhanced Severance Program) are as follows:

A - $9,200,000; B-$5,400,000; C-$7,400,000.

The total severance payments to each of the following individuals (not including home loans, automobiles, and other miscellaneous items covered by contracts) shall not exceed the amounts specified:

| | |
|---|---|
| Jerry Davis | $1,600,000 |
| Don Orris | 1,350,000 |
| Bob Starzel | 1,050,000 |
| Cy Harvey | 1,050,000 |
| Tom Matthews | 1,050,000 |
| L. Parsons | 1,020,833 |

II. Pace and SPEvS

Provide termination payments in an amount not to exceed (i) an aggregate $720,000 for key employees of PACER and (ii) an aggregate $280,000 for key employees of SP Environmental Systems in the event of a sale, distribution to shareholders or other change in control; and

III. PST

Permit the monetization of amounts vested under the Phantom Stock Plan of Personnel Scheduling Technology, Inc. not to exceed an aggregate $500,000 from the cash accounts of that Subsidiary.

CLARIFICATION OF
AGREEMENT AND PLAN OF MERGER

Reference is hereby made to the Agreement and Plan of Merger, dated as of August 3, 1995 (the "Merger Agreement"), by and among Union Pacific Corporation, a Utah corporation ("Parent"), Union Pacific Railroad Company, a Utah corporation and an indirect wholly owned subsidiary of Parent ("UPRR"), UP Acquisition Corporation, a Delaware corporation and a direct wholly owned subsidiary of UPRR ("Sub"), and Southern Pacific Rail Corporation, a Delaware corporation (the "Company"). On behalf of the parties to the Merger Agreement, the undersigned are entering into this letter agreement which sets forth certain clarifications to the Merger Agreement in order to correct certain typographical errors, delete surplus verbiage and clarify certain other matters. Capitalized terms that are defined in the Merger Agreement and not otherwise defined herein shall have the respective meanings ascribed to them in the Merger Agreement. The parties agree that the Merger Agreement shall be conformed to reflect the following clarifications:

1. Section 5.1(d) of the Merger Agreement. The parties understand and agree that (a) Section 5.1(d) of the Merger Agreement inadvertently contains a reference to "(B)" in clause (ii) thereof and that such reference to "(B)" shall be deemed to be deleted; (b) a semicolon was inadvertently omitted immediately before clause (ii) of Section 5.1(d) and shall be deemed to be inserted; (c) a comma was inadvertently omitted after the phrase "employee benefit plan" in clause (ii) of Section 5.1(d) and shall be deemed to be inserted therein; and (d) the period which was inadvertently inserted at the end of Section 5.1(d) shall be deemed to be deleted and a semicolon shall be deemed to be inserted in lieu thereof.

2. Section 5.4 of the Merger Agreement. The parties wish to clarify that the reference in Section 5.4 of the Merger Agreement to the 17.25% of the shares of capital stock of Spinco for which Parent intends to effect an initial public offering shall be calculated after giving effect to the issuance of shares in such initial public offering and to the shares to be issued to employees or reserved for issuance with respect to employee options.

3. Section 5.6(d) of the Merger Agreement. The parties wish to clarify that the paragraph beginning "First Payment:" in Section 5.6(d) of the Merger Agree-

ment, which discusses the payment of the MCP Awards, inadvertently contains two references to "December 25, 1995." Such references to "December 25, 1995" are hereby deemed to be deleted and "December 15, 1995" shall be deemed to be inserted in lieu thereof.

4. Section 5.11 of the Merger Agreement. The parties wish to clarify that Section 5.11 of the Merger Agreement inadvertently states that Parent shall maintain directors' and officers' insurance in effect for not less than six years after consummation of the Offer; such reference to the "Offer" was intended by the parties to refer to, and shall hereby be deemed to refer to, the "Merger."

5. Condition to the Merger. Subject to and in reliance upon compliance with the provisions of the proviso of this sentence, the following sentence and Section 20 of the Clarification of Anschutz Shareholders Agreement and Anschutz/Spinco Shareholders Agreement being executed concurrently herewith, the parties agree that the condition to the Merger set forth in Section 6.2(d) of the Merger Agreement was not intended by the parties to, and does not, extend to any waiting period pursuant to the HSR Act applicable to the acquisition by the Anschutz Holders of Parent Common Stock pursuant to the Merger; provided, however, that, if all waiting periods applicable under the HSR Act to the acquisition by the Anschutz Holders of Parent Common Stock pursuant to the Merger shall not have expired or been terminated at the time of the Merger, the Anschutz Holders will take appropriate action, and Parent and the Company will cooperate with Anschutz Holders, to enable the Merger to close without delay and without violation of the HSR Act, including, for example, by entering into an appropriate escrow agreement or other arrangement pending divestiture or completion of HSR Act review. Each of the parties hereto agrees to use its best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable, whether under applicable laws and regulations or otherwise, to cause all applicable waiting periods under the HSR Act to expire or terminate with respect to the acquisition by the Anschutz Holders of Parent Common Stock pursuant to the Merger; provided, however, that none of the parties hereto or their subsidiaries shall be required to take any action that would be materially harmful to their businesses, assets, operations, financial condition or results of operations.

IN WITNESS WHEREOF, the parties have caused this Clarification of Agreement and Plan of Merger to be executed as of August 3, 1995.

UNION PACIFIC CORPORATION

By /s/ L. White Matthews, III
Name: L. White Matthews, III
Title:

UP ACQUISITION CORPORATION

By /s/ Carl W. von Bernuth
Name: Carl W. von Bernuth
Title:

UNION PACIFIC RAILROAD COMPANY

By /s/ Carl W. von Bernuth
Name: Carl W. von Bernuth
Title:

SOUTHERN PACIFIC RAIL CORPORATION

By /s/ Cannon Y. Harvey
Name: Cannon Y. Harvey
Title: Executive Vice President

CLARIFICATION OF
ANSCHUTZ SHAREHOLDERS AGREEMENT
AND
ANSCHUTZ/SPINCO SHAREHOLDERS AGREEMENT

Reference is hereby made to (i) a Shareholders Agreement (the "Anschutz Shareholders Agreement"), dated as of August 3, 1995, by and among Union Pacific Corporation, a Utah corporation ("Parent"), UP Acquisition Corporation, a Delaware corporation and an indirect wholly owned subsidiary of Parent ("Purchaser"), The Anschutz Corporation, a Kansas corporation ("TAC"), Anschutz Foundation, a Colorado not-for-profit corporation (the "Foundation"), and Mr. Philip F. Anschutz ("Mr. Anschutz" and, collectively with TAC and the Foundation, the "Shareholders"), and (ii) a Shareholders Agreement ("Anschutz/Spinco Shareholders Agreement" and, together with the Anschutz Shareholders Agreement, the "Agreements"), dated as of August 3, 1995, by and among Union Pacific Resources Group Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Spinco"), and the Shareholders. On behalf of the parties to the Agreements, the undersigned are entering into this letter agreement which sets forth certain clarifications to the Agreements in order to correct certain typographical errors, delete surplus verbiage and clarify certain other matters. Capitalized terms that are defined in the Agreements and are not otherwise defined herein shall have the respective meanings ascribed to them in the Agreements. The parties agree that the Agreements shall be conformed to reflect the following clarifications:

1. Section 3(b) of the Anschutz Shareholders Agreement. The word "or" was inadvertently omitted from the last sentence of Section 3(b) of the Anschutz Shareholders Agreement between the phrases "operation of law" and "upon the occurrence", and shall be deemed to be inserted between such phrases.

2. Section 5(a) of the Anschutz Shareholders Agreement. The phrase "and (D) following consummation of the Merger, the acquisition of not more than 131,723 shares of Parent Common Stock pursuant to the Airplane Purchase Agreement dated as of May 5, 1994 between TAC and Learjet Inc. (as amended from time to time, the

"Airplane Purchase Agreement")" was inadvertently omitted from clause (i) of Section 5(a) of the Anschutz Shareholders Agreement immediately following the phrase "(C) the issuance and delivery of Parent Voting Securities pursuant to the Merger Agreement" and shall be deemed to be inserted therein and the word "and" preceding "(C)" shall be deemed to be deleted. In addition, the reference to "Section 5(b)" in clause (z) of the last paragraph of Section 5(a) of the Anschutz Shareholders Agreement was incorrect and shall be deemed to the deleted and the correct reference to "Section 5(c)" shall be deemed to be inserted therein.

3. Section 5(b) of the Anschutz Shareholders Agreement. The phrase "pursuant to the Airplane Purchase Agreement and" was inadvertently omitted from Section 5(b) of the Anschutz Shareholders Agreement immediately before the phrase "by way of stock dividends or other distributions" and shall be deemed to be inserted therein.

4. Section 5(c) of the Anschutz Shareholders Agreement. The words "with respect to the election of directors" was inadvertently omitted from Section 5(c) of the Anschutz Shareholders Agreement immediately following the phrase "and as directed by the Persons acting as Proxies in respect of proxies solicited by the Board of Directors of Parent" in clause (ii) thereof and shall be deemed to be inserted therein.

5. Section 6(a) of the Anschutz Shareholders Agreement. The word "which" at the beginning of the phrase "which respect to the identity of the acquiror of such Parent Voting Securities ..." at line 18 of Section 6(a) of the Anschutz Shareholders Agreement was inadvertently inserted and shall be deemed to be deleted and the word "with" shall be deemed to be inserted in lieu thereof.

6. Section 6(b) of the Anschutz Shareholders Agreement. The phrase "set forth in the proviso in Section 6(a) hereof" contained in the tenth sentence of Section 6(b) of the Anschutz Shareholders Agreement contains a typographical omission and surplus verbiage. The word "as" was inadvertently omitted immediately before such phrase and shall be deemed to be inserted therein, and the words "the proviso in" were inadvertently inserted in such phrase and shall be deemed to be deleted therefrom.

7. Section 7(a) of the Anschutz Shareholders Agreement. The following phrase was inadvertently omit-

ted from the sixth sentence of Section 7(a) of the Anschutz Shareholders Agreement and shall be deemed to be inserted at the end of such sentence:

> ; provided, however that Parent shall not be obligated to cause the Shareholder Designee to become a member of the Compensation, Benefits and Nominating Committee of the Board if, and only for so long as, in the opinion of tax counsel for Parent (which may be internal or outside counsel), the membership of the Shareholder Designee on such Committee would be likely to cause the disallowance of any deduction by Parent for federal income tax purposes under Section 162(m) of the Code or any other provision of, or regulation under, the Code now or hereafter in effect. Parent acknowledges that the Shareholder Designee, consistent with his rights and duties as a director, shall have access to all information that he may request concerning actions taken by the Compensation, Benefits and Nominating Committee.

8. Section 9(c) of the Anschutz Shareholders Agreement. The phrase ", except that TAC has the right to acquire up to 324,041 (less any amount subsequently sold by Learjet, Inc. or its assignee) shares of Company Common Stock pursuant to the Airplane Purchase Agreement" was inadvertently omitted from Section 9(c) of the Anschutz Shareholders Agreement at the end of the second sentence thereof and shall be deemed to be inserted therein.

9. Section 2 of the Anschutz/Spinco Shareholders Agreement. The parenthetical phrase "(other than Sections 3, 4, 5, 9, 10, 11 and 14)" was inadvertently omitted after the word "Agreement" in the first line of Section 2 of the Anschutz/Spinco Shareholders Agreement and such parenthetical phrase shall be deemed to be inserted therein. In addition, the words "this Agreement" were inadvertently omitted at the end of the second line of Section 2 of the Anschutz/Spinco Shareholders Agreement after the word "and" and such words shall be deemed to be inserted therein.

10. Section 3 of the Anschutz/Spinco Shareholders Agreement. The word "and" was inadvertently omitted from the proviso of Section 3 of the Anschutz/Spinco Shareholders Agreement, between the phrases "with respect to the Company Voting Securities pledged thereunder" and "no such pledge shall prevent ...", and shall be deemed to be inserted between such

phrases. In addition, the words "or Spinco Voting Securities" were inadvertently omitted following the phrase "Company Common Stock" on line 24 of Section 3 of the Anschutz/Spinco Shareholders Agreement and following the phrase "Company Voting Securities" on lines 26, 35, 37, and 43 of Section 3 of the Anschutz/Spinco Shareholders Agreement and such words shall be deemed to be inserted therein.

11. Section 5(a) of the Anschutz/Spinco Shareholders Agreement. The phrase "and (D) following consummation of the Merger, the acquisition of not more than such number of shares of Spinco Common Stock as may be received as a dividend on not more than 131,723 shares of Parent Common Stock received by Learjet, Inc. in the Merger, and subject to the Airplane Purchase Agreement dated as of May 5, 1994 between TAC and Learjet Inc. (as amended from time to time, the "Airplane Purchase Agreement")" was inadvertently omitted from clause (i) of Section 5(a) of the Anschutz/Spinco Shareholders Agreement immediately following the phrase "(C) the issuance and delivery of Spinco Voting Securities pursuant to the Spin-off" and shall be deemed to be inserted therein and the word "and" preceding "(C)" shall be deemed to be deleted. In addition, the reference to "Section 5(b)" in clause (z) of the last paragraph of Section 5(a) of the Anschutz/Spinco Shareholders Agreement was incorrect and shall be deemed to be deleted and the correct reference to "Section 5(c)" shall be deemed to be inserted therein.

12. Section 5(b) of the Anschutz/Spinco Shareholders Agreement. The phrase "pursuant to the Airplane Purchase Agreement and" was inadvertently omitted from Section 5(b) of the Anschutz/Spinco Shareholders Agreement immediately before the phrase "by way of stock dividends or other distributions" and shall be deemed to be inserted therein.

13. Section 5(c) of the Anschutz/Spinco Shareholders Agreement. The words "with respect to the election of directors" were inadvertently omitted from Section 5(c) of the Anschutz/Spinco Shareholders Agreement immediately following the phrase "and as directed by the Persons acting as Proxies in respect of proxies solicited by the Board of Directors of Spinco" in clause (ii) thereof and shall be deemed to be inserted therein. In the event that Parent in its sole discretion should determine that the Shareholders' voting obligations pursuant to Section 5(c)(ii) of the Anschutz/Spinco Shareholders Agreement could adversely affect the tax-free nature of the spin-off of Union Pacific Resources

Group Inc., Section 5(c)(ii) shall be deemed to be stricken therefrom.

14. Section 6(a) of the Anschutz/Spinco Shareholders Agreement. The word "which" at the beginning of the phrase "which respect to the identity of the acquiror of such Spinco Voting Securities ..." at line 17 of Section 6(a) of the Anschutz/Spinco Shareholders Agreement was inadvertently inserted and shall be deemed to be deleted, and the word "with" shall be deemed to be inserted in lieu thereof.

15. Section 6(b) of the Anschutz/Spinco Shareholders Agreement. The phrase "set forth in the proviso in Section 6(a) hereof" contained in the tenth sentence of Section 6(b) of the Anschutz/Spinco Shareholders Agreement contains a typographical omission and surplus verbiage; the word "as" was inadvertently omitted immediately before such phrase and shall be deemed to be inserted therein, and the words "the proviso in" were inadvertently inserted in such phrase and shall be deemed to be deleted therefrom.

16. Section 7(a) of the Anschutz/Spinco Shareholders Agreement. The words "or until the termination of this Agreement" in the first full paragraph following subparagraph (vi) in Section 7(a) of the Anschutz/Spinco Shareholders Agreement were inadvertently included therein and in lieu thereof the following words shall be deemed to be inserted therein: "and so long as this Agreement shall not have been terminated".

17. Section 9(c) of the Anschutz/Spinco Shareholders Agreement. The phrase ", except that TAC has the right to acquire up to 520,188 (less any amount subsequently sold by Learjet, Inc. or its assignee) shares of Company Common Stock pursuant to the Airplane Purchase Agreement" was inadvertently omitted from Section 9(c) of the Anschutz/Spinco Shareholders Agreement at the end of the second sentence thereof and shall be deemed to be inserted therein.

18. Section 10 of the Anschutz/Spinco Shareholders Agreement. The word "Delaware" on the second line of Section 10(a) of the Anschutz/Spinco Shareholders Agreement was inadvertently inserted and shall be deemed to be deleted, and the word "Utah" shall be deemed to be inserted in lieu thereof.

19. Section 13 of the Anschutz/Spinco Shareholders Agreement. The word "Parent" was inadvertently included on lines 25, 36, 37 and 40 of Section 13 of the

Anschutz/Spinco Shareholders Agreement and in lieu thereof the word "Spinco" shall be deemed to be inserted therein.

20. HSR Act Matters. We understand and acknowledge that Parent and the Shareholders have agreed that the condition to the Merger set forth in Section 6.2(d) of the Merger Agreement was not intended by the parties to, and does not, extend to any waiting period pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), applicable to the acquisition by the Shareholders of Parent Voting Securities. The Shareholders further agree that if all waiting periods applicable under the HSR Act to the acquisition by the Shareholders of Parent Voting Securities pursuant to the Merger shall not have expired or been terminated at the time of the Merger, the Shareholders will take appropriate action, and Parent will cooperate with Shareholders, to enable the Merger to close without delay and without violation of the HSR Act, including, for example, by entering into an appropriate escrow agreement or other arrangement pending divestiture or completion of HSR Act review. Each of Parent and Spinco agrees to cooperate with the Shareholders in these matters, including, among other things, by agreeing if necessary to amend the Anschutz Shareholders Agreement and the Anschutz/Spinco Shareholders Agreement, as the case my be, in the respects required to effect such an arrangement or divestiture. Subject to the foregoing, each of the parties hereto agrees to use its best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable, whether under applicable laws and regulations or otherwise, to cause all applicable waiting periods under the HSR Act to expire or terminate with respect to the acquisition by the Shareholders of Parent Voting Securities pursuant to the Merger as promptly as practicable following the initial filing by the Shareholders of the applicable pre-merger notification forms pursuant to the HSR Act (it being understood that the Shareholders shall consult with Parent as to the timing of such filing); provided, however, that none of Parent or Spinco or any of their affiliates shall be required to take any action that would be materially harmful to their businesses, assets, operations, financial condition or results of operations.

IN WITNESS WHEREOF, the parties have caused this Clarification of Anschutz Shareholders Agreement and Anschutz/Spinco Shareholders Agreement to be executed as of August 3, 1995.

UNION PACIFIC CORPORATION

By /s/ L. White Matthews, III
Name: L. White Matthews, III
Title:

UP ACQUISITION CORPORATION

By /s/ Carl W. von Bernuth
Name: Carl W. von Bernuth
Title:

UNION PACIFIC RESOURCES GROUP INC.

By /s/ Jack L. Messman
Name: Jack L. Messman
Title:

THE ANSCHUTZ CORPORATION

By /s/ Philip F. Anschutz
Name: Philip F. Anschutz
Title:

ANSCHUTZ FOUNDATION

By /s/ Philip F. Anschutz
Name: Philip F. Anschutz
Title:

/s/ Philip F. Anschutz
Philip F. Anschutz

CLARIFICATION OF
PARENT SHAREHOLDERS AGREEMENT

Reference is hereby made to the Shareholders Agreement (the "Parent Shareholders Agreement"), dated as of August 3, 1995, by and among Union Pacific Corporation, a Utah corporation ("Parent"), UP Acquisition Corporation, a Delaware corporation and an indirect wholly owned subsidiary of Parent ("Purchaser"), and Southern Pacific Rail Corporation, a Delaware corporation (the "Company"). On behalf of the parties to the Parent Shareholders Agreements, the undersigned are entering into this letter agreement which sets forth certain clarifications to the Parent Shareholders Agreement in order to correct certain typographical errors, delete surplus verbiage and clarify certain other matters. Capitalized terms that are defined in the Parent Shareholders Agreement and are not otherwise defined herein shall have the respective meanings ascribed to them in the Parent Shareholders Agreement. The parties agree that the Parent Shareholders Agreement shall be conformed to reflect the following clarifications:

1. Section 2(b) of the Parent Shareholders Agreement. The word "or" was inadvertently omitted from the last sentence of Section 2(b) of the Parent Shareholders Agreement between the phrases "operation of law" and "upon the occurrence", and shall be deemed to be inserted between such phrases.

2. Section 5(a) of the Parent Shareholders Agreement. The word "which" at the beginning of the phrase "which respect to the identity of the acquiror of such Company Voting Securities ..." at line 18 of Section 5(a) of the Parent Shareholders Agreement was inadvertently inserted and shall be deemed to be deleted and the word "with" shall be deemed to be inserted in lieu thereof.

3. Section 5(b) of the Parent Shareholders Agreement. The phrase "set forth in the proviso in Section 6(a) hereof" contained in the tenth sentence of Section 5(b) of the Parent Shareholders Agreement contains a typographical omission and surplus verbiage, and such phrase shall be deemed to be deleted and the phrase "as set forth in Section 5(a) hereof" shall be deemed to be inserted in lieu thereof.

IN WITNESS WHEREOF, the parties have caused this Clarification of Parent Shareholders Agreement to be executed as of August 3, 1995.

UNION PACIFIC CORPORATION

By /s/ L. White Matthews, III
Name: L. White Matthews, III
Title:

UP ACQUISITION CORPORATION

By /s/ Carl W. von Bernuth
Name: Carl W. von Bernuth
Title:

SOUTHERN PACIFIC RAIL CORPORATION

By /s/ Cannon Y. Harvey
Name: Cannon Y. Harvey
Title: Executive Vice President

# 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 [FEE REQUIRED]

For the fiscal year ended December 31, 1994

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 | 13-2626465 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| Martin Tower, Eighth and Eaton Avenues<br>Bethlehem, Pennsylvania<br>(Address of principal executive offices) | 18018<br>(Zip Code) |
| | (610) 861-3200<br>(Registrant's telephone number, including area code) |

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. |
| 4¾% Convertible Debentures Due 1999 | 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 10, 1995, the aggregate market value of registrant's Common Stock held by non-affiliates (using the New York Stock Exchange closing price) was approximately $10,459,863,003.

The number of shares outstanding of the registrant's Common Stock as of February 10, 1995 was 205,911,168.

Portions of the following documents are incorporated by reference into this Report: (1) registrant's Annual Report to Stockholders for the year ended December 31, 1994 (Parts I and II); and (2) registrant's definitive Proxy Statement for the annual meeting of stockholders to be held on April 21, 1995 (Part III).

## PART I

**Item 1. Business**
**and**
**Item 2. Properties**

Union Pacific Corporation, incorporated in Utah in 1969, operates, through subsidiaries, in the areas of rail transportation (Union Pacific Railroad Company and Missouri Pacific Railroad Company), oil, gas and mining (Union Pacific Resources Company) and trucking (Overnite Transportation Company). Each of these subsidiaries is indirectly wholly-owned by Union Pacific Corporation.

Except as the context otherwise requires, the terms "Union Pacific" or the "Corporation" mean Union Pacific Corporation and its subsidiaries, and the terms "Union Pacific Railroad" or the "Railroad" mean Union Pacific Railroad Company ("UPRR") and Missouri Pacific Railroad Company ("MPRR") and their respective subsidiaries.

A brief description of Union Pacific's principal businesses follows. Additional information about these businesses and other financial information for Union Pacific is presented on pages 4 through 22 and 44 through 46 of the 1994 Annual Report to Stockholders ("Annual Report") and such information (excluding photographs on pages 4 through 22, none of which supplements the text and which are not otherwise required to be disclosed herein) is incorporated herein by reference. Information on business segments on page 32 and a map of Union Pacific's operations on pages 48 and 49 of the Annual Report are also incorporated herein by reference.

Major Developments

In March 1994, Union Pacific sold its investment in the Wilmington, California, oil field and related facilities for $405 million to the City of Long Beach, California. Also in March 1994, Union Pacific Resources Company ("Resources") acquired Amax Oil & Gas, Inc. ("AMAX"), a subsidiary of Cyprus Amax Minerals Company, for a net purchase price of $725 million. Additional information relating to these transactions is provided in Note 4 to the Financial Statements, appearing on page 38 of the Annual Report.

In October 1994, Union Pacific announced a competing bid to acquire Santa Fe Pacific Corporation ("Santa Fe"), which had previously entered into a definitive merger agreement with Burlington Northern Inc. ("BN"). The Corporation pursued the acquisition for several months, making a number of revised bids. Each of the Corporation's bids was rejected by Santa Fe. These rejections, coupled with a selective "poison pill" adopted by Santa Fe that discouraged Santa Fe shareholders from choosing between competing bids, caused Union Pacific to withdraw its proposal to acquire Santa Fe and its related tender offer on January 31, 1995.

At year-end, Union Pacific completed the sale of its waste management business, USPCI, Inc. ("USPCI"), to Laidlaw Inc. USPCI's performance fell short of the Corporation's expectations as a

result of many companies' sluggish cleanup timetables, waste minimization efforts by many industries, and incineration competition from cement kilns. Additional information relating to the sale is provided in Note 2 to the Financial Statements, appearing on pages 37 and 38 of the Annual Report.

In December 1994, the Interstate Commerce Commission ("ICC") approved the Railroad's application to control Chicago and North Western Transportation Company ("CNW"). The ICC's order, unless stayed pending any appeal, will be effective on April 6, 1995 and will permit the Railroad to convert its 29.13 percent ownership of non-voting common stock into voting common stock and to increase its representation on the CNW Board of Directors from one director out of seven to three directors out of nine. The ICC's order will enable the two carriers to improve service through closer coordination of operations and marketing activities. The ICC's order is subject to a standard labor protection condition and a requirement that the Soo Line Railroad Company ("Soo") be permitted to admit third parties to certain joint facilities operated by Soo and CNW. The Railroad intends, upon the effectiveness of the order and upon making provision for certain costs related to the foregoing conditions, to exercise the authority granted by the ICC's order.

Rail Transportation

Union Pacific Railroad is the third largest railroad in the United States in terms of track miles, with 17,500 route miles linking Pacific Coast and Gulf Coast ports with the Midwest. 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. Major categories of freight hauled by the Railroad are automotive, chemicals, energy (coal), food/consumer/government, grains and grain products, intermodal, and metals/minerals/forest. In 1994, energy was the largest commodity in terms of revenue ton-miles (35.9 percent of total), while chemicals traffic produced the highest commodity revenue (21.1 percent of total). Percentages of revenue ton-miles and commodity revenue for each commodity are presented on page 44 of the Annual Report.

A separate Annual Report on Form 10-K for the year ended December 31, 1994, is filed by MPRR. Reference is made to such report for additional information concerning that company.

Oil, Gas and Mining

Resources is an independent oil and gas company engaged in the exploration for and production of natural gas, crude oil and associated products. Substantially all of Resources' exploration and production programs are in the Austin Chalk trend and the Carthage area in central and eastern Texas and Louisiana; the Ozona area in western Texas (representing former AMAX properties); the Union Pacific Land Grant in Colorado, Wyoming and Utah; the Gulf of Mexico; and Canada. Through a wholly-owned subsidiary, Resources also markets its own production, and purchases and resells third-party production, focusing on direct marketing to the natural gas end user, with particular emphasis on the power generation market.

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Resources is also responsible for Union Pacific's interests in trona and coal development through the management of Union Pacific Minerals, Inc., an affiliated corporation. Trona activities consist of royalties from mining on Union Pacific Land Grant acreage and equity and partnership interests that equate to a 49 percent interest in Rhone Poulenc of Wyoming, which mines trona and processes it into soda ash. Coal activities consist principally of royalties from third party mines and a 50 percent ownership interest in Black Butte Coal Company, a joint venture mine operated by the joint venture partner.

The estimated quantities of proved oil and gas reserves set forth under Oil and Gas - Proved Reserves on page 45 of the Annual Report have been prepared by petroleum reservoir engineers who are employees of Resources. In 1994, Union Pacific filed certain reports with the Department of Energy's Energy Information Administration containing oil and gas reserve information for the year ended December 31, 1993. The information reported differed from that contained in the Annual Report by less than 5 percent.

Trucking

Overnite Transportation Company ("Overnite"), a major interstate trucking company, serves all 50 states and portions of Canada and Mexico through 173 service centers (located primarily in the eastern, southeastern and central United States and on the Pacific Coast) and through agency partnerships with several small, high-quality carriers serving areas not directly covered by Overnite. As one of the largest trucking companies in the United States, Overnite serves 95 percent of the U.S. population and offers a comprehensive array of services, specializing in the less-than-truckload business. Overnite transports a variety of products, including machinery, tobacco, textiles, plastics, electronics and paper products.

Competition

In its rail transportation business, Union Pacific is subject to competition from other railroads, motor carriers and barge operators based on both price and service. Most of its railroad operations are conducted in corridors served by competing railroads and by motor carriers. Motor carrier competition is particularly strong for intermodal traffic. Because of the proximity of MPRR's routes to major inland and Gulf Coast waterways and of a UPRR route to the Columbia River, barge competition can be particularly pronounced for bulk commodities in certain markets.

Resources competes for oil and gas reserves and technology advances with smaller companies as well as with the larger integrated oil companies. In its marketing activities, Resources competes with other hydrocarbon producers and marketers. Mining operations also are subject to competition from a number of companies, many of which have larger operations.

Overnite experiences intense competition, based on service and price, from both regional and national motor carriers.

Employees

During 1994, Union Pacific had an average of 46,900 employees, of whom approximately 52 percent belonged to various labor organizations.

As is true with employees of all the principal railroads in the country, most of the 28,600 employees of Union Pacific Railroad are organized along craft lines and represented by national labor unions. The Railroad continues to adapt agreements from the previous round of national negotiations to meet local requirements throughout its system. The Railroad has implemented two-person crews for all through-freight trains and for a portion of yard and local operations. Expansion of two-person crews is planned for other areas of the system.

With respect to 1995 national railroad negotiations, both the unions and the carriers have taken the necessary steps to commence labor negotiations, with the filing of their initial bargaining positions. Whether unions are required to bargain nationally with all railroads at once, or can bargain with individual railroads, is currently being litigated with two unions. Negotiations on substantive issues are proceeding with other unions. The negotiations will likely continue through 1995 and beyond.

As the nation's largest non-union trucking company, Overnite is periodically targeted by major labor organization efforts and is currently the subject of an organizational campaign instituted by the International Brotherhood of Teamsters Union at many of its terminals. As of March 7, 1995, Overnite employees had voted for union representation at seven terminals, requiring Overnite to bargain in good faith with union officials regarding future pay rates, benefits and work rules for employees at those locations. At such date, approximately 5.6 percent of Overnite's 14,300 employees were represented by labor unions.

Governmental Regulation

Union Pacific's operations are currently subject to a variety of Federal, state and local regulations. A description of the more significant regulations follows.

The operations of Union Pacific Railroad and Overnite are subject to the regulatory jurisdiction of the ICC, other Federal agencies and various state agencies. The ICC has jurisdiction over rates charged on certain regulated rail traffic; freight car compensation; issuance or guarantee of railroad and certain railroad holding company securities; transfer, extension or abandonment of rail lines; and acquisition of control of rail common carriers and motor carriers by rail common carriers. The United States Congress and Clinton Administration appear to be in agreement that the ICC should be eliminated and that some of its rail and truck regulatory functions should be transferred to other Federal agencies. It is unclear whether the transfer of such functions, in particular the jurisdiction over the acquisition of control of rail common carriers and motor carriers, will involve the imposition of different or more burdensome regulatory requirements and what effect such transfer will have on Union Pacific operations.

Other Federal agencies have jurisdiction over safety, movement of hazardous materials, movement and disposal of hazardous waste, and equipment standards. State agencies regulate intrastate rail freight rates to the extent that such agencies have adopted Federal standards and procedures and continue to follow such procedures. However, several states in which railroad operations are conducted have ceded intrastate rail rate regulation to the ICC. In addition, in January 1995, the Federal government deregulated intrastate trucking, lifting state oversight of rates, routes and service. Several states are currently reviewing the duties of the agencies that have historically carried out economic and other regulation of railroads and motor carriers. Various state and local agencies also have jurisdiction over disposal of hazardous wastes and seek to regulate movement of hazardous materials.

Most of Resources' crude oil, field condensate and natural gas operations are in jurisdictions in which production is regulated under applicable conservation laws. Exploration and production activities are also subject to regulations respecting safety. The transportation of Resources' natural gas is affected by the provisions of the Natural Gas Act and the Natural Gas Policy Act. These acts, administered by the Federal Energy Regulatory Commission ("FERC"), regulate the interstate transportation of gas, including rates and the terms and conditions for service. FERC also governs the tariffs for common carrier liquid pipelines. Resources operates intrastate natural gas pipelines in Texas and Wyoming. State agencies regulate the operations of these lines, including the rates, terms and conditions for providing transportation service. The Department of the Interior regulates the leasing of Federal lands and the exploration for and production of oil and gas on and from such lands. The transmission by pipeline of liquid petroleum, petroleum products and natural gas is subject to Federal and state pipeline safety laws.

Resources' mining operations are subject to a variety of Federal and state regulations respecting safety, land use and reclamation. In addition, the Department of the Interior regulates the leasing of Federal lands for coal development as provided in the Mineral Lands Leasing Act of 1920. Section 2(c) of this Act prohibits a company operating a railroad from holding a Federal coal lease. In late 1982 the Department of the Interior decided that the Section prohibits new leasing to affiliates of railroads, such as Resources and Union Pacific Minerals, Inc. The Department of Justice and the Department of the Interior have both concluded that under current conditions Section 2(c) is an impediment to competition and that it should be repealed. In January 1993, a Regional Solicitor of the Department of the Interior opined that Section 2(c) does not prohibit Resources' Black Butte joint venture coal company mine from holding Federal coal leases.

Environmental Regulation

Subsidiaries of Union Pacific 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 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 an $8.5 billion fund to be used by the Federal government to pay for such cleanup efforts.

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, 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. Union Pacific subsidiaries are subject to potential liability under CERCLA as generators of hazardous waste and as transporters. 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. CERCLA may be subject to reauthorization in 1995 and may be substantially modified as part of that reauthorization.

The operations of Union Pacific's subsidiaries are subject to the requirements of the CAA. The 1990 amendments to the CAA include a provision under Title V that requires that certain facilities obtain operating permits. EPA regulations require all states to develop Federally approvable permit programs. State permit programs were required to be submitted for approval by November 1993. The EPA was required to approve or disapprove these programs by November 1994, and 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 Union Pacific facilities, such as gas processing plants and other facilities at Resources, as well as certain Railroad facilities, may be required to obtain such permits. In addition, the EPA is expected to propose mobile source regulations during the summer of 1995. These regulations are expected to require the "remanufacture" of much of the Railroad's locomotive fleet by the year 2007. In addition, locomotives purchased in the future could have to meet

stringent emissions criteria by the year 2000. While the cost of these modifications may be significant, such expenditures are not expected to materially affect the Corporation's financial condition or results of operations.

The operations of Union Pacific'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 stormwater regulations under the Federal Water Pollution Control Act.

**Item 3. Legal Proceedings**

Santa Fe Pacific Corporation/Burlington Northern Inc. Merger Litigation

On October 6, 1994, the Corporation filed suit in the Court of Chancery in Delaware against Santa Fe, BN and the members of the Board of Directors of Santa Fe seeking, among other things, a declaratory judgment that the merger agreement between Santa Fe and BN was terminable by Santa Fe in order to allow Santa Fe to accept a merger proposed by the Corporation, and an injunction requiring Santa Fe to negotiate with the Corporation regarding the Corporation's proposal. On October 19, 1994 the Corporation filed a First Amended and Supplemental Complaint, and was joined in that action as plaintiff by James A. Shattuck, an officer of the Railroad, who also is a stockholder of Santa Fe. In addition to the claims stated and relief sought in the Corporation's original complaint, the First Amended and Supplemental Complaint alleged, among other things, that Santa Fe and the director defendants had breached their fiduciary duties of candor by joining BN in a wrongful campaign to mislead Santa Fe's stockholders (via press releases and the Joint Proxy Statement issued by Santa Fe and BN) into believing, among other things, that (i) Santa Fe could not lawfully consider the Corporation's merger proposal, (ii) the Corporation's merger proposal was illusory and made solely for the purpose of preventing a merger of Santa Fe and BN, and (iii) a merger of the Corporation and Santa Fe could not lawfully occur.

On January 31, 1995, the Corporation withdrew its proposal to merge with Santa Fe and terminated its related tender offer. On February 24, 1995, a Stipulation of Dismissal was filed with the Court dismissing the Corporation's lawsuit without prejudice.

Environmental Matters

In 1983, UPRR and the EPA entered into two consent orders under CERCLA and RCRA, respectively, relating to groundwater pollution resulting from the wastewater treatment system at UPRR's tie treating facility in Laramie, Wyoming which was closed in 1983. UPRR and the State of Wyoming entered into an agreement suspending litigation brought by the State alleging violation of state environmental laws with respect to the site. Pursuant to the consent orders and the agreement, UPRR financed a remedial investigation and feasibility study for the site and constructed a containment isolation system. In January 1988, the EPA and UPRR entered into a new RCRA consent order regarding the oil recovery and on-site treatment testing program which UPRR was conducting

at the site. More recently, UPRR completed a Corrective Measures Study which recommended a final remedy for the site. The EPA approved this study provided that its remedial effect is subject to re-evaluation after 5 years. UPRR has paid $253,317 for oversight costs incurred by the EPA prior to September 30, 1986 and $237,996 for costs incurred between September 30, 1986 and November 30, 1991. EPA oversight costs incurred after that date are being paid on an annual basis. The EPA is authorized under CERCLA to receive reimbursement for such costs.

In December 1992, the Texas Natural Resources Conservation Commission ("TNRCC") served MPRR with a Notice of Violation for alleged discharges and fuel spills at MPRR's San Antonio, Texas railyard. The TNRCC proposed penalties totalling $500,000. MPRR and the TNRCC settled this matter for a penalty payment of $300,000 plus the implementation of certain supplemental environmental projects in Texas costing $275,000.

Two complaints and a compliance report issued in 1991 and 1992 by the California Department of Toxic Substance Control ("CDTSC") alleged various violations of waste oil management regulations at UPRR's East Los Angeles, California railyard. In November 1993, the CDTSC issued an enforcement order proposing a $198,000 penalty for these alleged violations. UPRR settled this matter for $95,000.

The EPA filed an Administrative Complaint and Notice of Opportunity for Hearing under the Toxic Substances Control Act alleging failure by Resources to submit certain gas plant chemical inventory reports by the regulatory deadline of February 21, 1991. Resources had in fact filed the reports in October 1993. The Complaint initially sought penalties totalling $330,000. Following discussions with the EPA and following the purchase of AMAX in March 1994 including additional AMAX gas processing facilities, Resources filed amended inventory reports on August 16, 1994. On August 25, 1994, the EPA amended the Complaint to propose aggregate civil penalties of $378,000. Pursuant to subsequent negotiations, Resources expects further amendments to the Complaint and to enter into a Consent Agreement with the EPA pursuant to which civil penalties totalling $84,000 will be paid in settlement of this matter.

In addition to the foregoing, Union Pacific and several of its subsidiaries have received notices from the EPA and state environmental agencies alleging that they are or may be liable under CERCLA, RCRA, and other Federal or state environmental legislation for the remediation costs associated with alleged contamination or for violations of environmental requirements 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 Union Pacific's exposure has been reached although regulatory proceedings at the sites involved have not been formally terminated. Additional information on the

Corporation's potential environmental costs is set forth under Other Matters on page 29 of the Annual Report.

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**Other Matters - Stockholder Reports**

In connection with the 1995 Annual Meeting, the Corporation received a proposal from two of its stockholders requesting a report containing certain information concerning equal employment opportunities and workplace diversity. The proponent stockholders agreed to withdraw the proposal from consideration at the 1995 Annual Meeting in exchange for the Corporation's commitment to prepare such a report. The report is being prepared and will be available upon request to all stockholders after June 1, 1995. Stockholders desiring to obtain a copy of the report should send a written request to Union Pacific Corporation, Eighth and Eaton Avenues, Bethlehem, Pennsylvania 18018 (Attention: Corporate Secretary).

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

| Name | Position | Age | Business Experience During Past Five Years |
|---|---|---|---|
| Drew Lewis | Chairman and Chief Executive Officer | 63 | (1) |
| Richard K. Davidson | President of Union Pacific and Chairman and Chief Executive Officer of the Railroad | 53 | (2) |
| L. White Matthews, III | Executive Vice President - Finance | 49 | (3) |
| Ursula F. Fairbairn | Senior Vice President - Human Resources | 52 | (4) |
| Carl W. von Bernuth | Senior Vice President and General Counsel | 51 | (5) |
| Charles E. Billingsley | Vice President and Controller | 61 | Current Position |
| John E. Dowling | Vice President - Corporate Development | 47 | Current Position |
| John B. Gremillion, Jr. | Vice President - Taxes | 48 | (6) |
| Mary E. McAuliffe | Vice President - External Relations | 49 | (7) |
| Gary F. Schuster | Vice President - Corporate Relations | 53 | Current Position |
| Gary M. Stuart | Vice President and Treasurer | 54 | Current Position |
| Judy L. Swantak | Vice President and Corporate Secretary | 39 | (8) |
| Jack L. Messman | President and Chief Executive Officer of Resources | 55 | (9) |
| James D. Douglas | President and Chief Operating Officer of Overnite | 45 | (10) |

(1) Mr. Lewis has served in his present position for the past five years. In addition, Mr. Lewis served as President of Union Pacific through May 1994 and as Chairman of the Railroad during August and September 1991.

(2) Mr. Davidson was elected President of Union Pacific effective May 1994, Chairman of the Railroad effective September 1991, and Chief Executive Officer of the Railroad effective August 1991. In addition, Mr. Davidson served as President of the Railroad during August 1991. Prior to August 1991, he served as Executive Vice President - Operations of the Railroad.

(3) Mr. Matthews was elected to his present position effective April 1992. Prior thereto, he served as Senior Vice President - Finance of Union Pacific.

(4) Mrs. Fairbairn was elected to her present position effective April 1990. Prior thereto, she served as IBM Director of Education and Management Development for International Business Machines Corporation.

(5) Mr. von Bernuth was elected to his present position effective September 1991. Prior thereto, he served as Vice President and General Counsel of Union Pacific.

(6) Mr. Gremillion was elected to his present position effective February 1992. Prior thereto, he served as Director of Taxes of Union Pacific.

(7) Ms. McAuliffe was elected to her present position effective December 1991. Prior thereto, she served as Director - Washington Affairs, Transportation and Tax of Union Pacific.

(8) Mrs. Swantak was elected to her present position effective September 1991. Prior thereto, she served as Corporate Secretary of Union Pacific.

(9) Mr. Messman was elected to his present position effective May 1991 and concurrently served as Chairman of USPCI prior to January 1995. In addition, prior to May 1991, he served as Chief Executive Officer of USPCI.

(10) Mr. Douglas was elected to his present position effective February 1995. From July 1993 through January 1995 he served as Senior Vice President - Finance and Administration of Overnite, and from March 1991 through June 1993 he served as Vice President - Finance of Overnite. Prior thereto, he served as Assistant Controller - Accounting of Union Pacific.

## PART II

### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Information as to the markets in which Union Pacific'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 31, 1995, is set forth under Selected Quarterly Data and Stockholders and Dividends, appearing on pages 43 and 44 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 8 to Financial Statements, appearing on pages 40 and 41 of the Annual Report. Such information is incorporated herein by reference.

### Item 6. Selected Financial Data

Selected Financial Data for Union Pacific for each of the last five years are set forth under Ten-Year Financial Summary, appearing on page 47 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 Union Pacific's results of operations, cash flows, liquidity and capital resources, and other matters is set forth in the Financial Review, appearing on pages 23 through 30 of the Annual Report, and is incorporated herein by reference.

### Item 8. Financial Statements and Supplementary Data

The Corporation's consolidated financial statements, accounting policy disclosures, notes to financial statements, business segment information and independent auditors' report are presented on pages 31 through 43 of the Annual Report. Selected quarterly financial data are set forth under Selected Quarterly Data, appearing on page 43 of the Annual Report. Information with respect to oil and gas producing activities is set forth under Supplementary Information, appearing on pages 44 through 46 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 Union Pacific, 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 Union Pacific is set forth in the Directors segments of the Proxy Statement and is incorporated herein by reference.

(b) Executive Officers of Registrant.

Information concerning the executive officers of Union Pacific 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 Certain Relationships and Related Transactions segment of the Proxy Statement and is incorporated herein by reference.

### Item 11. Executive Compensation

Information concerning remuneration received by Union Pacific's executive officers and directors is presented in the Compensation of Directors, Compensation Committee Interlocks and Insider Participation, Summary Compensation Table, Option/SAR Grants Table, Option/SAR Exercises and Year-End Value Table and Defined Benefit Plans 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 Union Pacific's equity securities beneficially owned as of February 10, 1995 by each of its directors and nominees for director, its five most highly compensated executive officers and its directors and executive officers as a group is set forth in the Directors and Security Ownership of Management 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 financial statements, accounting policy disclosures, notes to financial statements and independent auditors' report appearing on pages 31 through 43, inclusive, of Union Pacific's 1994 Annual Report to Stockholders 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 financial statements referred to above.

(3) Exhibits - Items 10(a) through 10(n) constitute the management contracts and executive compensation plans and arrangements required to be filed as exhibits to this report.

(3) (a) Union Pacific's Revised Articles of Incorporation, as amended through April 17, 1992, are incorporated herein by reference to Exhibit 3(a) to Union Pacific's Report on Form 10-Q for the quarter ended March 31, 1992.

(3) (b) Union Pacific's By-Laws, amended effective as of January 26, 1995.

(4) Pursuant to various indentures and other agreements, Union Pacific has issued long-term debt; however, no such agreement has securities or obligations covered thereby which exceed 10% of Union Pacific's total consolidated assets. Union Pacific agrees to furnish the Commission with a copy of any such indenture or agreement upon request by the Commission.

(10) (a) The Executive Incentive Plan of Union Pacific Corporation and Subsidiaries, amended effective as of September 30, 1993, is incorporated herein by reference to Exhibit 10 to Union Pacific's Report on Form 10-Q for the quarter ended September 30, 1992 and Exhibit 10(a) to Union Pacific's Report on Form 10-Q for the quarter ended September 30, 1993.

(10) (b) The 1982 Stock Option and Restricted Stock Plan of Union Pacific Corporation, as amended as of February 1, 1992, is incorporated herein by reference to Exhibit 10(c) to Union Pacific's Report on Form 10-K for the year ended December 31, 1991.

(10) (c) The 1988 Stock Option and Restricted Stock Plan of Union Pacific Corporation, as amended as of February 1, 1992, is incorporated herein by reference to Exhibit 10(d) to Union Pacific's Report on Form 10-K for the year ended December 31, 1991.

(10) (d) The Supplemental Pension Plan for Officers and Managers of Union Pacific Corporation and Affiliates, as amended and restated, is incorporated herein by reference to Exhibit 10(d) to Union Pacific's Report on Form 10-K for the year ended December 31, 1993.

(10) (e) The Supplemental Pension Plan for Exempt Salaried Employees of Union Pacific Resources Company and Affiliates, as amended and restated, is incorporated by reference to Exhibit 10(e) to Union Pacific's Report on Form 10-K for the year ended December 31, 1993.

(10) (f) The Employment Agreement, dated as of January 30, 1986, between Union Pacific and Andrew L. Lewis, Jr., is incorporated herein by reference to Exhibit 10(e) to Union Pacific's Report on Form 10-K for the year ended December 31, 1985.

(10) (g) The 1990 Retention Stock Plan of Union Pacific Corporation, as amended as of September 30, 1993, is incorporated herein by reference to Exhibit 10(e) to Union Pacific's Report on Form 10-Q for the quarter ended September 30, 1991 and Exhibit 10(b) to Union Pacific's Report on Form 10-Q for the quarter ended September 30, 1993.

(10) (h) The 1992 Restricted Stock Plan for Non-Employee Directors of Union Pacific Corporation, as amended as of January 28, 1993, is incorporated herein by reference to Exhibit 10(a) to Union Pacific's Current Report on Form 8-K filed March 16, 1993.

(10) (i) The 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation, as amended as of September 30, 1993, is incorporated herein by reference to Exhibit 10(b) to Union Pacific's Current Report on Form 8-K filed March 16, 1993 and Exhibit 10(c) to Union Pacific's Report on Form 10-Q filed for the quarter ended September 30, 1993.

(10) (j) The Pension Plan for Non-Employee Directors of Union Pacific Corporation is incorporated herein by reference to Exhibit 10(k) to Union Pacific's Report on Form 10-K for the year ended December 31, 1992.

(10) (k) The Executive Life Insurance Plan of Union Pacific Corporation, adopted August 2, 1994, is incorporated herein by reference to Exhibit 10 to Union Pacific's Report on Form 10-Q for the quarter ended June 30, 1994.

(10) (l) The Union Pacific Corporation Stock Unit Grant and Deferred Compensation Plan for the Board of Directors.

(10) (m) Written Description of Charitable Contribution Plan for Non-Employee Directors of Union Pacific Corporation is incorporated herein by reference to Exhibit 10(m) to Union Pacific's Report on Form 10-K for the year ended December 31, 1992.

(10) (n) Written Description of Other Executive Compensation Arrangements of Union Pacific Corporation is incorporated herein by reference to Exhibit 10(o) to Union Pacific's Report on Form 10-K for the year ended December 31, 1992.

(11) Computation of earnings per share.

(12) Computation of ratio of earnings to fixed charges.

(13) Pages 4 through 49, inclusive, of Union Pacific's Annual Report to Stockholders for the year ended December 31, 1994, but excluding photographs set forth on pages 4 through 22, none of which supplements the text and which are not otherwise required to be disclosed in this Form 10-K.

(21) List of Union Pacific's significant subsidiaries and their respective states of incorporation.

(23) Independent Auditors' Consent.

(24) Powers of attorney executed by the directors of Union Pacific.

(27) Financial Data Schedule.

(99) (a) Financial Statements for the Fiscal Year ended December 31, 1994 required by Form 11-K for the Union Pacific Corporation Thrift Plan - To be filed by amendment.

(99) (b) Financial Statements for the Fiscal Year ended December 31, 1994 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, 1994 required by Form 11-K for the Skyway Retirement Savings Plan - To be filed by amendment.

(99) (d) Financial Statements for the Fiscal Year ended December 31, 1994 required by Form 11-K for the Union Pacific Agreement Employee 401(k) Retirement Thrift Plan - To be filed by amendment.

(99) (e) Financial Statements for the Fiscal Year ended December 31, 1994 required by Form 11-K for the Union Pacific Motor Freight Agreement Employee 401(k) Retirement Thrift Plan - To be filed by amendment.

(b) Reports on Form 8-K

On October 12, 1994, the Corporation filed a Current Report on Form 8-K, which contained a press release describing the proposed acquisition by the Corporation of Santa Fe and certain related litigation filed by the Corporation.

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 8th day of March, 1995.

UNION PACIFIC CORPORATION

By /s/ Drew Lewis
Drew Lewis, Chairman and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below, on this 8th day of March, 1995, by the following persons on behalf of the registrant and in the capacities indicated.

PRINCIPAL EXECUTIVE OFFICER
AND DIRECTOR:

/s/ Drew Lewis
Drew Lewis, Chairman and Chief
Executive Officer

PRINCIPAL FINANCIAL OFFICER
AND DIRECTOR:

/s/ L. White Matthews, III
L. White Matthews, III,
Executive Vice President - Finance

PRINCIPAL ACCOUNTING OFFICER:

/s/ Charles E. Billingsley
Charles E. Billingsley,
Vice President and Controller

DIRECTORS:

Robert P. Bauman*

Richard B. Cheney*

E. Virgil Conway*

Richard K. Davidson*

Spencer F. Eccles*

Elbridge T. Gerry, Jr.*

William H Gray, III*

Judith R. Hope*

Lawrence M. Jones*

Richard J. Mahoney*

Claudine B. Malone*

Jack L. Messman*

John R. Meyer*

Thomas A. Reynolds, Jr.*

James D. Robinson, III*

Robert W. Roth*

Richard D. Simmons*

* By /s/ Judy L. Swantak
Judy L. Swantak, Attorney-in-fact

Exhibit 11

## UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

## COMPUTATION OF EARNINGS PER SHARE

**For the Years Ended December 31, 1994, 1993 and 1992**
(Thousands of Dollars, Except Per Share Amounts)

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Weighted average number of shares outstanding | 205,105 | 204,854 | 203,248 |
| Average shares issuable on exercise of stock options less shares repurchasable from proceeds | 502 | 660 | 635 |
| Weighted average number of shares used in computation of earnings per share | 205,607 | 205,514 | 203,883 |
| Income from continuing operations | $ 958,654 | $ 714,639 | $ 728,275 |
| Loss from discontinued operations (a) | (412,452) | (9,282) | (58) |
| Income before cumulative effect of changes in accounting principles | 546,202 | 705,357 | 728,217 |
| Cumulative effect to January 1, 1993 of changes in accounting principles (b) | -- | (175,226) | -- |
| Net Income | $ 546,202 | $ 530,131 | $ 728,217 |
| Earnings per share: | | | |
| Income from continuing operations | $ 4.66 | $ 3.47 | $ 3.57 |
| Loss from discontinued operations(a) | (2.00) | (0.04) | -- |
| Income before cumulative effect of changes in accounting principles | 2.66 | 3.43 | 3.57 |
| Cumulative effect to January 1, 1993 of changes in accounting principles (b) | -- | (0.85) | -- |
| Net Income | $ 2.66 | $ 2.58 | $ 3.57 |

(a) The computations for 1993 and 1992 have been restated to reflect USPCI, Inc. as discontinued operations (See Note 2 to the Financial Statements).

(b) See Note 3 to the Financial Statements regarding the 1993 accounting changes.

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

| | 1994 | 1993 | 1992 | 1991 | 1991 Excluding Special Charge | 1990 |
|---|---|---|---|---|---|---|
| Earnings from continuing operations (b) | $ 958,654 | $ 714,639 | $ 728,275 | $ 82,929 | $ 641,429 | $ 614,076 |
| Add (deduct) distributions greater (to extent less) than income of unconsolidated affiliates | (50,479) | (33,327) | (23,188) | (25,189) | (25,189) | (11,878) |
| Total | 908,175 | 681,312 | 705,087 | 57,740 | 616,240 | 602,198 |
| Income taxes (c): | | | | | | |
| Federal | 428,096 | 427,100 | 369,126 | 54,094 | 340,594 | 327,594 |
| State and local | 32,248 | 28,043 | 3,393 | 11,388 | 11,388 | 19,602 |
| Total | 460,344 | 455,143 | 372,519 | 65,482 | 351,982 | 347,196 |
| Fixed charges: | | | | | | |
| Interest expense including amortization of debt discount | 336,012 | 314,841 | 353,920 | 381,310 | 381,310 | 375,859 |
| Portion of rentals representing an interest factor | 48,588 | 39,751 | 39,663 | 42,358 | 42,358 | 40,155 |
| Total | 384,600 | 354,592 | 393,583 | 423,668 | 423,668 | 416,014 |
| Earnings available for fixed charges | $1,753,119 | $1,491,047 | $1,471,189 | $ 546,890 | $1,391,890 | $1,365,408 |
| Fixed charges - as above | $ 384,600 | $ 354,592 | $ 393,583 | $ 423,668 | $ 423,668 | $ 416,014 |
| Interest capitalized | 1,034 | 1,699 | 315 | 1,684 | 1,684 | 2,052 |
| Total | $ 385,634 | $ 356,291 | $ 393,898 | $ 425,352 | $ 425,352 | $ 418,066 |
| Ratio of earnings to fixed charges | 4.5 | 4.2 | 3.7 | 1.3 | 3.3 | 3.3 |

(a) All prior year information has been restated to reflect USPCI, Inc. as discontinued operations (See Note 2 to the Financial Statements).

(b) Before cumulative effect of changes in accounting principles of $175,226 in 1993 (See Note 3 to the Financial Statements).

(c) In 1993, income taxes included the impact of the adoption of SFAS 109, "Accounting for Income Taxes", and the effect of the Omnibus Budget Reconciliation Act of 1993 (See Notes 3 and 7 to the Financial Statements).

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UNION PACIFIC

Finance Docket No. 32760, VOLUME 7

26

SOUTHERN PACIFIC LINES

Before the

INTERSTATE COMMERCE COMMISSION

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Finance Docket No. 32760

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UNION PACIFIC CORPORATION, UNION PACIFIC RAILROAD COMPANY
AND MISSOURI PACIFIC RAILROAD COMPANY
— CONTROL AND MERGER —
SOUTHERN PACIFIC RAIL CORPORATION,
SOUTHERN PACIFIC TRANSPORTATION COMPANY, ST. LOUIS
SOUTHWESTERN RAILWAY COMPANY, SPCSL CORP. AND THE
DENVER AND RIO GRANDE WESTERN RAILROAD COMPANY

FILED
NOV 30 1995
INTERSTATE
COMMERCE COMMISSION

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# RAILROAD MERGER APPLICATION

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## VOLUME 7

EXHIBITS 2, 6, 7, 9, 20 and 21

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LOUISE A. RINN
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Missouri Pacific Railroad Company
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*Attorneys for Union Pacific Corporation, Union Pacific Railroad Company and Missouri Pacific Railroad Company*

November 30, 1995

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

# FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1994

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 1-7817

# MISSOURI PACIFIC RAILROAD COMPANY

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 43-1118635<br>(I.R.S. Employer Identification No.) |
| 1416 Dodge Street, Omaha, Nebraska<br>(Address of principal executive offices) | 68179<br>(Zip Code) |
| Registrant's telephone number, including area code | (402) 271-5000 |

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

| Title of each Class | Name of each exchange on which registered |
|---|---|
| Missouri Pacific Railroad Company 4-1/4% First Mortgage Bonds due 2005 | New York Stock Exchange, Inc. |
| Missouri Pacific Railroad Company 4-3/4% General (Income) Mortgage Bonds due 2020 and 2030 | New York Stock Exchange, Inc. |
| Missouri Pacific Railroad Company 5% Debentures due 2045 | New York Stock Exchange, Inc. |
| Texas and Pacific Railway Company 5% First Mortgage Bonds due 2000 | New York Stock Exchange, Inc. |
| Missouri-Kansas-Texas Railroad Company 5-1/2% Subordinated Income Debentures due 2033 | New York Stock Exchange, Inc. |

Securities registered pursuant to Section 12(g) of the Act: None

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1) (a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

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 __X__ 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. [ X ].

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None of the Registrant's voting stock is held by non-affiliates. The Registrant is a wholly-owned, indirect subsidiary of Union Pacific Corporation.

As of February 10, 1995, the Registrant had outstanding 920 shares of Common Stock, $1 par value, and 80 shares of Class A Stock, $1 par value.

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DOCUMENTS INCORPORATED BY REFERENCE - None

PART I

Item 1. Business

Missouri Pacific Railroad Company (the "Registrant") includes the Registrant, a Class I Railroad incorporated in Delaware and a wholly-owned, indirect subsidiary of Union Pacific Corporation (the "Corporation"), as well as a number of wholly-owned and majority-owned subsidiaries of the Registrant engaged in various railroad and related operations, and various terminal companies in which the Registrant has minority interests.

The Registrant operates in the midwestern and southwestern states of Arkansas, Colorado, Illinois, Kansas, Louisiana, Missouri, Nebraska, Oklahoma, Tennessee and Texas. The Registrant 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 ports and across the Texas-Mexico border. The Registrant's operations have been coordinated with those of Union Pacific Railroad Company ("UPRR"), another wholly-owned, indirect subsidiary of the Corporation. The two railroads operate as a unified system. See Note 2 to the Registrant's Financial Statements for information on related party transactions.

In 1994, the Registrant had transportation revenues of $2.3 billion, approximately 98.4 percent of which were derived from rail freight operations. Percentages of revenue ton-miles ("RTM") and rail commodity revenue for major commodities during 1994, 1993 and 1992 were as follows:

| | 1994 | | 1993 | | 1992 | |
|---|---|---|---|---|---|---|
| | RTM | Commodity Revenue | RTM | Commodity Revenue | RTM | Commodity Revenue |
| | (Percent of Total) | | | | | |
| Energy | 29.9% | 15.4% | 29.0% | 14.8% | 26.7% | 14.6% |
| Chemicals | 22.6 | 29.2 | 22.3 | 29.1 | 22.6 | 30.1 |
| Metals/Minerals/ Forest | 16.9 | 18.7 | 17.7 | 20.2 | 19.0 | 20.6 |
| Grain and Grain Products | 15.9 | 11.1 | 16.7 | 10.9 | 17.5 | 11.0 |
| Intermodal | 6.1 | 6.7 | 5.2 | 7.4 | 5.0 | 6.5 |
| Automotive | 4.2 | 12.6 | 4.6 | 12.1 | 4.4 | 11.7 |
| Food/Consumer/ Government | 4.4 | 5.3 | 4.5 | 5.5 | 4.8 | 5.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Amount in Billions | 89.6 | $2.3 | 82.3 | $2.1 | 78.2 | $2.1 |

By order issued March 7, 1995, the Interstate Commerce Commission ("ICC") approved the application of the Corporation and Chicago and North Western Transportation Company ("CNW") for an order authorizing the common control of the rail subsidiaries of the Corporation and CNW. The ICC's order is scheduled to become effective on April 6, 1995 and will permit the Corporation to (i) convert its 29.13 percent equity ownership interest in CNW, currently in the form of non-voting common stock, into shares of voting common stock of CNW (the "CNW Shares"), (ii) acquire additional CNW Shares and (iii) increase its representation on the CNW Board of Directors from one director out of seven to three directors out of nine. The ICC's order is subject to a standard labor protection condition and a requirement that the Soo Line Railroad Company ("Soo") be permitted to admit third parties to certain joint facilities operated by Soo and CNW.

On March 16, 1995, the Corporation and CNW entered into a definitive merger agreement (the "Merger Agreement"), pursuant to which UP Rail, Inc., a subsidiary of the Corporation, will acquire 100 percent of the outstanding CNW Shares not otherwise owned by the Corporation or its affiliates for $35 per share in cash pursuant to a tender offer and a second-step merger. Following consummation of the tender offer, UP Rail, Inc. will be merged into CNW with CNW being the surviving corporation and CNW will become a wholly-owned subsidiary of the Corporation. In addition, following consummation of the tender offer, and in accordance with the Merger Agreement, the Corporation intends to elect a majority of the directors on the CNW Board of Directors.

The tender offer for the CNW Shares was commenced on March 23, 1995 and will expire on April 19, 1995 unless extended. The tender offer is conditioned upon, among other things, (i) there having been validly tendered and not withdrawn prior to the expiration of the offer a number of CNW Shares which, when added to the shares of non-voting common stock of CNW beneficially owned by the Corporation and its subsidiaries (assuming conversion thereof into CNW Shares and the exercise of outstanding options for CNW Shares) constitutes at least a majority of the CNW Shares outstanding on a fully-diluted basis (assuming conversion of the non-voting common stock into CNW Shares) and (ii) the ICC's March 7, 1995 order approving the common control of the Corporation's and CNW's rail subsidiaries having become final and effective prior to the expiration of the tender offer. The second-step merger is also conditioned upon a number of things, including without limitation (i) the consummation of the tender offer, (ii) approval of the merger by CNW stockholders (which will not be required if 90 percent or more of the CNW Shares, including CNW Shares now owned by the Corporation, are acquired pursuant to the offer or otherwise) and (iii) the ICC either having determined that the terms of the merger are just and reasonable or having issued a declaratory order that such a determination is not required.

UP Rail, Inc. and CNW have also entered into a Company Stock Option Agreement, dated as of March 16, 1995 (the "Option Agreement"). Subject to UP Rail, Inc. and its affiliates owning at least 85 percent of the outstanding CNW Shares (assuming the conversion of the non-voting common stock to CNW Shares), the Option Agreement will permit UP Rail, Inc. to purchase from CNW, at the tender offer price, a sufficient number of additional CNW Shares such that the CNW Shares purchased pursuant to the Option Agreement plus the CNW Shares owned by the Corporation or UP Rail, Inc. would represent 90.01 percent of the outstanding CNW Shares (assuming conversion of the non-voting common stock into CNW Shares).

The Corporation, UP Rail, Inc., CNW and CNW's directors have been named as defendants in five lawsuits commenced on March 9 and 13, 1995 in the Court of Chancery in and for New Castle County, Delaware. Each suit purports to be a class action brought on behalf of all public stockholders of CNW except for the defendants and their affiliates. The complaints allege, among other things, that (i) directors of CNW breached their fiduciary duties to the CNW stockholders in considering and approving the acquisition and (ii) as the controlling stockholder of CNW, the Corporation and UP Rail, Inc. breached their fiduciary duties to the other stockholders of CNW in agreeing to enter into the acquisition. In particular, the complaints allege that the directors agreed to sell CNW at an inadequate price and without proper information concerning the true value of CNW and its shares because they failed to use an auction or an active market check or to explore other strategic alternatives, and failed to create a special committee of fully disinterested directors. One complaint adds the claim that the whole CNW Board is disqualified from acting because of various contractual agreements with the Corporation. Another complaint alleges that the Corporation's 29 percent control of CNW permitted the Corporation to control the terms of any buyout transaction and no bona fide negotiations could take place. In addition, all claim the Corporation and UP Rail, Inc. had access to confidential and proprietary non-public information about CNW and used that information to acquire CNW at an inadequate price in violation of the Corporation's obligations as a controlling stockholder of CNW to assure that the transaction be entirely fair and at the best price. On March 28, 1995, an amended complaint was filed in two of the suits reiterating the claims made in the earlier complaints which it amended, and alleging, among other things, (i) that the investment bank retained by the CNW directors to render a fairness opinion in connection with the tender offer was not disinterested or independent and had a conflict of interest with regard to the tender offer, (ii) that the CNW directors breached or aided and abetted breaches of their duties of good faith and loyalty by approving for themselves and members of CNW's senior management lucrative compensation packages and other financial benefits, (iii) that the defendants structured the transaction in such a way as to prevent CNW's public stockholders from voting on the merger or exercising dissenter's rights, and (iv) that the defendants breached their duties of candor and full disclosure by failing adequately to disclose, among other things, the information described above, the reasons why the CNW's Board failed to implement a stockholders' rights plan and the reasons for alleged discrepancies and variations between valuation ranges for CNW Shares as prepared by the financial advisors of the Corporation and CNW, respectively.

As relief, the complaints seek, among other things, an injunction against consummation of the transaction and damages in an unspecified amount. The Corporation and CNW believe that all of the lawsuits are without merit, and both companies intend to vigorously defend such actions.

Competition

The Registrant is subject to competition from other railroads, motor carriers and barge operators, based on both price and service. Most of its railroad operations are conducted in corridors served by competing railroads and by motor carriers. Motor carrier competition is particularly strong for intermodal traffic. Because of the proximity of the Registrant's routes to major inland and Gulf Coast waterways, barge competition can be particularly pronounced for bulk commodities.

Employees

As is true with employees of all the principal railroads in the country, the majority of the Registrant's employees are organized along craft lines and represented by national labor unions. The Registrant continues to adapt agreements from the previous round of national negotiations to meet local requirements throughout its system. The Registrant has implemented two-person crews for all through-freight trains and for a portion of yard and local operations. Expansion of two-person crews is planned for other areas of the system.

With respect to 1995 national negotiations, both the unions and the carriers have taken the necessary steps to commence labor negotiations, with the filing of their initial bargaining positions. Whether unions are required to bargain nationally with all railroads at once, or can bargain with individual railroads, is currently being litigated with two unions. Negotiations on substantive issues are proceeding with other unions. The negotiations will likely continue through 1995 and beyond.

Governmental Regulation

The Registrant's operations are subject to the regulatory jurisdiction of the ICC, other Federal agencies and various state agencies. The ICC has jurisdiction over rates charged on certain regulated rail traffic; freight car compensation; issuance or guarantee of railroad and certain railroad holding company securities; transfer, extension or abandonment of rail lines; and acquisition of control of rail common carriers and motor carriers by rail common carriers. The United States Congress and Clinton Administration appear to be in agreement that the ICC should be eliminated and that some of its rail and truck regulatory functions should be transferred to other Federal agencies. It is unclear whether the transfer of such functions, in particular the jurisdiction over the acquisition of control of rail common carriers and motor carriers, will involve the imposition of different or more burdensome regulatory requirements and what effect such transfer will have on the Registrant's operations.

Other Federal agencies have jurisdiction over safety, movement of hazardous materials, movement and disposal of hazardous waste, and equipment standards. State agencies regulate intrastate rail freight rates to the extent that such agencies have adopted Federal standards and procedures and continue to follow such procedures. However, several states in which railroad operations are conducted have ceded intrastate rail rate regulation to the ICC. Various state and local agencies also have jurisdiction over disposal of hazardous wastes and seek to regulate movement of hazardous materials.

Item 2. Properties

Operating Equipment

At December 31, 1994 the Registrant owned or leased from others 1,168 locomotives, 29,442 freight cars and 1,967 units of work equipment. Substantially all of the Registrant's railroad rolling stock is subject to the liens of the Registrant's First Mortgage and General (Income) Mortgage as well as the lien of the First Mortgage of the Texas and Pacific Railway Company, its predecessor in interest (collectively the "Mortgages"). In addition, a portion

of this property is subject to various equipment obligations which are superior to the liens of one or more of the Mortgages.

Rail Property

The Registrant operates approximately 9,600 miles of track, including 7,900 miles of main line and 1,700 miles of branch line. Approximately 10 percent of the main line track consists of trackage rights over track owned by others. The Registrant's right-of-way and tracks are subject to one or more of the Mortgages.

## Item 3. Legal Proceedings

In December 1992, the Texas Natural Resources Conservation Commission ("TNRCC") served the Registrant with a Notice of Violation for alleged discharges and fuel spills at the Registrant's San Antonio, Texas railyard. The TNRCC proposed penalties totalling $500,000. The Registrant and the TNRCC settled this matter for a penalty payment of $300,000 plus the implementation of certain supplemental environmental projects in Texas costing $275,000.

In addition to the foregoing, the Registrant has received notices from the Environmental Protection Agency ("EPA") and state environmental agencies alleging that it is or may be liable under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and/or other Federal or state environmental legislation for the remediation costs associated with alleged contamination or for violations of environmental requirements at various sites throughout the United States. There are approximately 13 sites for which such notices have been received which are currently 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 some of the superfund sites, the Registrant 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 Registrant's exposure has been reached although regulatory proceedings at the sites involved have not been formally terminated. Additional information relating to the Registrant's potential environmental costs is set forth in Note 9 to the Financial Statements, contained on page F-13 of this report.

## Item 4. Submission of Matters to a Vote of Security Holders

Omitted in accordance with General Instruction J of Form 10-K.

## PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

All of the Common Stock and Class A Stock of the Registrant is owned by a wholly-owned indirect subsidiary of the Corporation. Accordingly, there is no market for the Registrant's capital stock. Dividends on the Registrant's Common Stock, which are paid on a quarterly basis, totalled $90.6 million in 1994 and $90 million in 1993. Through 1993, no dividends had been declared or paid on the Registrant's Class A Stock; however, a $5.4 million special cash dividend was paid in 1994 and a $6.3 million special cash dividend will be paid on the Class A Stock in 1995. See Notes 5 and 7 to the Registrant's financial statements for a discussion of dividend restrictions on the Common Stock and Class A Stock.

Item 6. Selected Financial Data

Omitted in accordance with General Instruction J of Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Omitted in accordance with General Instruction J of Form 10-K. In lieu thereof, a narrative analysis is presented on Page F-14.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary information related thereto, listed on the Index to Financial Statements, are 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

Omitted in accordance with General Instruction J of Form 10-K.

Item 11. Executive Compensation

Omitted in accordance with General Instruction J of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Omitted in accordance with General Instruction J of Form 10-K.

Item 13. Certain Relationships and Related Transactions

Omitted in accordance with General Instruction J of Form 10-K.

## PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

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

See Index to Financial Statements.

(a) (3) Exhibits

(3)(a) - Registrant's Certificate of Incorporation, amended effective as of August 12, 1988, is incorporated herein by reference to Exhibit 3(i) to the Registrant's Report on Form 10-Q for the quarter ended June 30, 1988.

(3)(b) - Registrant's By-laws, amended effective as of September 1, 1992, are incorporated herein by reference to Exhibit 3 to the Registrant's Report on Form 10-Q for the quarter ended September 30, 1992.

(4) - Pursuant to various indentures and other agreements, the Registrant has issued long-term debt; however, no such agreement has securities or obligations covered thereby which exceed 10% of the Registrant's total consolidated assets. The Registrant agrees to furnish the Commission with a copy of any such indenture or agreement upon request by the Commission.

(24) - Powers of attorney executed by the directors of the Registrant.

(27) - Financial Data Schedule.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the quarter ended December 31, 1994.

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 30th day of March, 1995.

MISSOURI PACIFIC RAILROAD COMPANY

By /s/ Richard K. Davidson

Richard K. Davidson,
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below, on this 30th day of March, 1995, by the following persons on behalf of the Registrant and in the capacities indicated.

By /s/ Richard K. Davidson

Richard K. Davidson,
Chairman and Chief Executive Officer
and a Director

/s/ L. White Matthews, III

L. White Matthews, III,
Chief Financial Officer and a Director

/s/ Morris B. Smith

Morris B. Smith,
Vice President-Finance

/s/ Charles E. Billingsley

Charles E. Billingsley,
Chief Accounting Officer

SIGNATURES - (Continued)

Robert P. Bauman*

Richard B. Cheney*

E. Virgil Conway*

Spencer F. Eccles*

Elbridge T. Gerry, Jr.*

William H. Gray III*

Judith R. Hope*

Lawrence M. Jones*

Drew Lewis*

Richard J. Mahoney*

Claudine B. Malone*

Jack L. Messman*

John R. Meyer*

Thomas A. Reynolds, Jr.*

James D. Robinson III*

Robert W. Roth*

Richard D. Simmons*

* By /s/ Judy L. Swantak
Judy L. Swantak, Attorney-in-fact

MISSOURI PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

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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 financial statements referred to above.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Missouri Pacific Railroad Company
Omaha, Nebraska

We have audited the accompanying statements of consolidated financial position of Missouri Pacific Railroad Company (a wholly-owned indirect subsidiary of Union Pacific Corporation) and subsidiary companies (the "Registrant") as of December 31, 1994 and 1993, and the related statements of consolidated income and retained earnings and of consolidated cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Registrant's management. Our responsibility is to express an opinion on the 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 the Registrant at December 31, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Registrant changed its method of accounting for postretirement benefits other than pensions, income taxes and transportation revenue and expense recognition in January 1993.

/s/ DELOITTE & TOUCHE LLP

Omaha, Nebraska
January 19, 1995

MISSOURI PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION
December 31, 1994 and 1993

(Thousands of Dollars)

ASSETS

| | 1994 | 1993 |
|---|---|---|
| Current Assets: | | |
| Cash and temporary investments | $ 7,640 | $ 7,131 |
| Accounts receivable - net (Note 3) | 75,678 | 84,425 |
| Inventories | 102,936 | 83,563 |
| Deferred income taxes (Notes 1 and 4) | 68,529 | 63,823 |
| Other current assets | 75,555 | 72,293 |
| Total Current Assets | 330,338 | 311,235 |
| Investments: | | |
| Investments in and advances to affiliated companies | 49,158 | 42,588 |
| Other investments | 13,020 | 12,743 |
| Total Investments | 62,178 | 55,331 |
| Properties, at cost (Notes 5 and 6): | | |
| Road | 4,220,652 | 4,021,672 |
| Equipment | 1,717,873 | 1,760,363 |
| Other | 73,416 | 76,050 |
| Total Properties | 6,011,941 | 5,858,085 |
| Less accumulated depreciation and amortization | 1,808,772 | 1,752,358 |
| Properties - Net | 4,203,169 | 4,105,727 |
| Intangible and Other Assets | 76,069 | 82,787 |
| Total Assets | $ 4,671,754 | $4,555,080 |

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

MISSOURI PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED FINANCIAL POSITION
December 31, 1994 and 1993

(Thousands of Dollars)

LIABILITIES AND STOCKHOLDER'S EQUITY

| | 1994 | 1993 |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ 26,220 | $ 26,266 |
| Accrued wages and vacation | 107,580 | 125,974 |
| Income and other taxes payable (Note 4) | 91,206 | 86,541 |
| Interest payable | 14,012 | 17,525 |
| Debt due within one year (Notes 5 and 6) | 38,664 | 53,253 |
| Due to affiliated companies - net (Note 2) | 816,795 | 796,523 |
| Casualty and other reserves | 118,029 | 109,769 |
| Other current liabilities | 173,086 | 160,669 |
| Total Current Liabilities | 1,385,592 | 1,376,520 |
| Debt Due After One Year (Notes 5 and 6) | 389,429 | 433,438 |
| Deferred Income Taxes (Notes 1 and 4) | 1,250,141 | 1,209,390 |
| Retiree Benefits Obligation (Notes 1 and 8) | 161,198 | 160,564 |
| Other Long-Term Liabilities (Note 9) | 184,964 | 228,262 |
| Stockholder's Equity (Notes 5 and 7): | | |
| Common stock - $1.00 par value; 920 shares authorized and outstanding | 1 | 1 |
| Class A stock - $1.00 par value; 80 shares authorized and outstanding | - | - |
| Capital surplus | 205,342 | 205,342 |
| Retained earnings | 1,095,087 | 941,563 |
| Total Stockholder's Equity | 1,300,430 | 1,146,906 |
| Total Liabilities and Stockholder's Equity | $4,671,754 | $4,555,080 |

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

MISSOURI PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS
For the Years Ended December 31, 1994, 1993 and 1992

(Thousands of Dollars)

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Operating Revenues (Note 1) | $2,320,791 | $2,149,104 | $2,129,999 |
| Operating Expenses (Note 2): | | | |
| Salaries, wages and employee benefits | 793,654 | 783,907 | 789,051 |
| Equipment and other rents | 271,163 | 220,738 | 219,527 |
| Depreciation and amortization | 215,731 | 206,987 | 204,264 |
| Fuel and utilities | 153,352 | 152,091 | 154,792 |
| Materials and supplies | 123,491 | 125,303 | 127,974 |
| Other costs | 297,709 | 249,945 | 276,404 |
| Total | 1,855,100 | 1,738,971 | 1,772,012 |
| Operating Income | 465,691 | 410,133 | 357,987 |
| Other Income - Net | 23,290 | 37,843 | 52,118 |
| Interest Expense (Notes 2 and 5) | (96,147) | (103,848) | (120,005) |
| Income Before Income Taxes and the Cumulative Effect of Accounting Changes | 392,834 | 344,128 | 290,100 |
| Income Taxes (Note 4) | 145,310 | 145,193 | 98,868 |
| Income Before Cumulative Effect of Changes in Accounting Principles | 247,524 | 198,935 | 191,232 |
| Cumulative Effect to January 1, 1993 of Changes in Accounting Principles (Note 1) | - | (125,168) | - |
| Net Income | $ 247,524 | $ 73,767 | $ 191,232 |
| Retained Earnings: | | | |
| Beginning of year | $ 941,563 | $ 957,796 | $ 836,564 |
| Net income | 247,524 | 73,767 | 191,232 |
| Dividends to parent (Notes 5 and 7) | (94,000) | (90,000) | (70,000) |
| End of Year | $1,095,087 | $ 941,563 | $ 957,796 |

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

MISSOURI PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED CASH FLOWS
For the Years Ended December 31, 1994, 1993 and 1992

(Thousands of Dollars)

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net Income | $ 247,524 | $ 7[illegible],767 | $ 191,232 |
| Non-Cash Charges to Income: | | | |
| Depreciation and amortization | 215,731 | 206,987 | 204,264 |
| Deferred income taxes | 35,347 | 66,772 | 38,916 |
| Cumulative effect of changes in accounting principles (Note 1) | - | 125,168 | - |
| Other non-cash charges (credits) - net | 16,061 | 18,344 | (94,807) |
| Changes in current assets and liabilities | (29,794) | (71,865) | 100,328 |
| Cash used for special charge | (42,271) | (88,750) | (47,345) |
| Cash from Operations | 442,598 | 330,423 | 392,588 |
| Investing Activities: | | | |
| Capital investments | (289,511) | (315,192) | (266,902) |
| Other - net | (19,503) | (2,870) | 84,462 |
| Cash Used in Investing Activities | (309,014) | (318,062) | (182,440) |
| Financing Activities: | | | |
| Debt repaid (Note 5) | (59,347) | (105,319) | (74,080) |
| Dividends to parent | (94,000) | (90,000) | (70,000) |
| Advances (to) from affiliated companies - net | 20,272 | 187,416 | (77,024) |
| Other - net | - | - | 4,428 |
| Cash Used in Financing Activities | (133,075) | (7,903) | (216,676) |
| Net Change in Cash and Temporary Investments | $ 509 | $ 4,458 | $ (6,528) |
| Changes in Current Assets and Liabilities: | | | |
| Accounts receivable | $ 8,747 | $ (18,351) | $ (3,768) |
| Inventories | (19,373) | (686) | (11,755) |
| Federal income tax benefit | - | - | 23,637 |
| Deferred Federal income taxes | (4,706) | 2,974 | 9,253 |
| Other current assets | (3,262) | (9,173) | (13,170) |
| Accounts payable | (46) | (7,638) | 7,788 |
| Other current liabilities | (11,154) | (38,991) | 88,343 |
| Total | $ (29,794) | $ (71,865) | $ 100,328 |

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

MISSOURI PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

## ACCOUNTING POLICIES

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Missouri Pacific Railroad Company and all subsidiaries (the "Registrant"). The Registrant is a wholly-owned, indirect subsidiary of Union Pacific Corporation (the "Corporation"). Investments in affiliated companies (20% to 50% owned) are accounted for on the equity method. All material intercompany transactions are eliminated.

### INVENTORIES

Inventories consist primarily of materials and supplies carried at the lower of average cost or market.

### REVENUE RECOGNITION

Transportation revenues are recognized on a percentage-of-completion basis, while delivery costs are recognized as incurred (See Note 1).

### PROPERTIES

Properties are stated at cost. Upon sale or retirement of units of depreciable operating property, gains and losses are charged to accumulated depreciation. With respect to all other property sold or retired (principally land sold for industrial development or as surplus property), cost and any related accumulated depreciation are removed from the accounts and a gain or loss is recognized upon disposition.

### DEPRECIATION

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

### INTANGIBLE ASSETS

Intangible and other assets include the cost in excess of fair value of net assets of acquired businesses associated with the Registrant's 1988 purchase of The Missouri-Kansas-Texas Railroad Company (the "Katy"). Amortization is recorded over 40 years on a straight-line basis. The Registrant regularly assesses the recoverability of costs in excess of net assets of acquired businesses through a review of cash flows and fair values of those businesses.

### HEDGING TRANSACTIONS

The Registrant periodically hedges hydrocarbon purchases (See Note 3). Gains and losses from these transactions are recognized upon receipt of the commodity.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Accounting Changes

In January 1993, the Registrant adopted the following accounting changes with a cumulative after-tax charge to earnings of $125.2 million.

Other Postretirement Benefits ("OPEB") (See Note 8)

Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", requires that the cost of non-pension benefits for retirees be accrued during their period of employment. The adoption of this Statement does not affect future cash funding requirements for these benefits. The OPEB component of the cumulative effect adjustment was a $73.5 million charge.

Income Taxes (See Note 4)

SFAS No. 109, "Accounting For Income Taxes", requires the balance-sheet approach of accounting for income taxes, whereby assets and liabilities are recorded at the tax rates currently enacted. The Registrant's future results may be affected by changes in the corporate income tax rate. The income tax component of the cumulative effect adjustment was a $42.2 million charge.

Revenue Recognition

The Registrant changed its method of transportation revenue and expense recognition from accruing both revenues and expenses at the inception of service to the industry practice of allocating revenues between reporting periods based on relative transit time, while recognizing expenses as incurred. The revenue recognition component of the cumulative effect adjustment was a $9.5 million charge.

2. Related Party Transactions

The Registrant is an affiliate of Union Pacific Railroad Company ("UPRR") and has significant interline rail shipments, equipment rents, and fuel and diesel power exchanges with that railroad. These transactions are settled in a manner similar to that used for comparable transactions with nonaffiliated railroads. Balances representing interline receivables and payables with UPRR are classified as due to affiliated companies.

Certain management and staff functions of the Registrant have been combined with those of UPRR. In addition, the affiliated railroads have centralized purchasing and disbursing functions which are handled by UPRR. Also, repairs to locomotives and freight cars are made on a system-wide basis without regard to ownership or usage. Marketing, administrative and other expenses (including, but not limited to, those discussed above) are allocated to the Registrant based on revenue contribution, gross ton-miles or time in service.

A summary of directly-incurred and allocated costs included in operating expenses is as follows:

| (Millions of Dollars) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Directly incurred..... | $1,408.5 | $1,339.0 | $1,392.2 |
| Allocated..... | 446.6 | 400.0 | 379.8 |
| Total..... | $1,855.1 | $1,739.0 | $1,772.0 |

Amounts due to and from affiliates, including the Corporation, bear interest at an annually determined rate which considers the Corporation's cost of debt. Net intercompany interest expense on such amounts was $65.2 million, $65.5 million and $71.1 million in 1994, 1993 and 1992, respectively.

3. Financial Instruments

Hedging

The Registrant uses derivative financial instruments to protect against diesel fuel price increases. While the use of these hedging arrangements limits the downside risk of adverse price movements, it may also limit benefits from

favorable movements. All hedging is accomplished pursuant to exchange-traded contracts or master swap agreements based on standard forms. The Registrant does not hold or issue financial instruments for trading purposes and addresses market risk by selecting instruments whose value fluctuations correlate strongly with the underlying item or risk being hedged. Credit risk related to hedging activities, which is minimal, is managed by requiring minimum credit standards for counterparties, periodic settlements and/or mark-to-market evaluations. The Registrant has not been required to provide, nor has it received any significant amount of collateral relating to its hedging activity.

Hedging arrangements fix diesel fuel prices using price swaps in which the Registrant pays fixed prices in exchange for market prices for equivalent notional amounts of fuel; however, at December 31, 1994, the Registrant had no hedging agreements in place.

Fair Value of Financial Instruments

The fair market value of the Registrant's long and short-term debt has been estimated using quoted market prices or current borrowing rates. At December 31, 1994, the carrying value of total debt exceeded the fair market value by approximately 48%. The carrying value of all other financial instruments approximates fair market value.

Off-Balance-Sheet Risk

The Registrant has sold, on a revolving basis, an undivided ownership interest in a designated pool of its accounts receivable to UPRR. The undivided ownership interest has been sold by UPRR to third parties. Collection risk on the pool of receivables is minimal. Under the terms of the agreement, UPRR acts as a collection agent for the Registrant. At both December 31, 1994 and 1993, accounts receivable are presented net of $137 million in proceeds generated from the receivables sold.

4. Income Taxes

The Registrant is included in the consolidated income tax return of the Corporation. The consolidated income tax liability of the Corporation is allocated among the parent and its subsidiaries on the basis of their separate contributions to the consolidated income tax liability, with full benefit of tax losses and credits made available through consolidation being allocated to the individual companies generating such losses and credits.

In August 1993, President Clinton signed the Omnibus Budget Reconciliation Act of 1993 into law raising the Federal corporate income tax rate to 35 percent from 34 percent retroactive to January 1, 1993. As a result, 1993 income tax expense increased by $26.5 million: $23.1 million for the one-time non-cash recognition of deferred income taxes related to prior periods and $3.4 million of incremental 1993 Federal income tax expense.

Components of income tax expense for the Registrant are as follows:

| (Thousands of Dollars) | | 1994 | 1993 |
|---|---|---|---|
| Current: | Federal | $103,192 | $ 70,619 |
| | State | 6,771 | 7,802 |
| | Total Current | 109,963 | 78,421 |
| Deferred: | Federal | 30,361 | 64,799 |
| | State | 4,986 | 1,973 |
| | Total Deferred | 35,347 | 66,772 |
| Total | | $145,310 | $145,193 |

The 1992 components of tax expense (in thousands), which have not been restated to reflect the adoption of SFAS No. 109 (see Note 1), were $59,952 for current Federal income tax expense and $38,916 for deferred Federal income tax expense.

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

| (Thousands of Dollars) | 1994 | 1993 |
|---|---|---|
| Net current deferred tax asset - Restructuring and other reserves | $ (68,529) | $ (63,823) |
| Excess tax over book depreciation | 1,097,152 | 1,087,992 |
| State taxes - net | 118,186 | 114,566 |
| Postretirement benefits | (40,428) | (40,418) |
| Special charge | (56,038) | (61,173) |
| Other | 131,269 | 108,423 |
| Net long-term deferred tax liability | 1,250,141 | 1,209,390 |
| Net deferred tax liability | $1,181,612 | $1,145,567 |

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

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Statutory tax rate | 35.0% | 35.0% | 34.0% |
| Cumulative effect of Federal rate increase | - | 6.7 | - |
| State taxes - net | 2.0 | 1.8 | - |
| Dividend exclusion | (0.6) | (0.6) | (0.9) |
| Other | 0.6 | (0.7) | 0.9 |
| Effective tax rate | 37.0% | 42.2% | 34.0% |

Payments of income taxes were $108.2 million in 1994 and $101.8 million in 1993. No taxes were paid for the year 1992. The Corporation believes it has adequately provided for income taxes.

5. Debt

Total debt at December 31, 1994 and 1993 is summarized below:

| (Thousands of Dollars) | 1994 | 1993 |
|---|---|---|
| Mortgage bonds, 4.25% to 5.00%, due through 2030 | $179,690 | $181,380 |
| Equipment obligations, 8.45% to 15.50%, due through 2001 | 71,706 | 118,903 |
| Mortgage, 11.50%, due through 2011 | 4,078 | 4,121 |
| Notes Payable, Federal Financing Bank, 7.17% to 10.66%, guaranteed by United States of America, due through 1997 | 11,904 | 14,045 |
| Income debentures, 5.00%, due 2045 and 2054 | 101,720 | 101,720 |
| Subordinated income debentures, 5-1/2%, due 2033 | 27,099 | 27,965 |
| Certificates constituting a charge on income - non-interest bearing, payable only from available income | 29,348 | 29,348 |
| Capitalized leases, 7.25% to 14.00%, due through 2003. | 24,133 | 31,381 |
| Other | 2,422 | 2,330 |
| Unamortized discount | (24,007) | (24,502) |
| | 428,093 | 486,691 |
| Less: Debt due within one year | 38,664 | 53,253 |
| Total debt due after one year | $389,429 | $433,438 |

Maturities of long-term debt (in thousands of dollars) for each year 1996 through 1999 are $24,462, $23,934, $7,178 and $6,446, respectively. Substantially all properties secure the outstanding equipment obligations and mortgage bonds.

Certain debt agreements impose dividend restrictions on the Registrant. The amount of retained earnings available for dividends at December 31, 1994 was $961.3 million. See Note 7 for other dividend restrictions.

Terms of certain of the Registrant's mortgage bonds, the 5% income debentures and the 5-1/2% subordinated income debentures require that interest be paid only from "available income", as defined in the indenture agreements. The mortgage bonds and 5% income debentures impose sinking fund and other restrictions in the event all interest is not paid. All interest was paid on the mortgage bonds and 5% income debentures for each of 1994, 1993 and 1992.

The Registrant assumed the 5-1/2% subordinated income debentures (the "Debentures") in connection with the Katy acquisition. Current interest must be paid only to the extent that there is available income remaining after allocation to a capital fund for the purpose of reimbursing the Registrant for certain capital expenditures. Unpaid interest accumulates to an amount not in excess of 16-1/2% of the principal amount of the Debentures and is paid only to the extent that there is available income remaining after payment of the current interest.

The certificates constituting a charge on income (the "Certificates"), which were also assumed as part of the Katy acquisition, do not bear interest and payments to a sinking fund for the Certificates are made only from available income, as defined in such Certificates. Available income must be applied to the capital fund, current and accumulated interest on the Debentures and a sinking fund for the Debentures before any payment is made to the sinking fund for the Certificates.

Available income of $19.1 million was generated in 1994 with respect to the Debentures and the Certificates. As a result, an interest payment on the Debentures of $1.5 million will be made in 1995, representing 1994 interest. In addition, $7.4 million of available income will be applied to the capital fund, $3.9 million will be applied to the sinking funds for the Debentures and the Certificates, and $6.3 million will be applied as dividends on the Registrant's Class A stock (See Note 7). Amounts applied to sinking funds may be covered by the cost of securities previously repurchased by the Registrant or the Katy. Amounts in the capital fund which are unused or unappropriated for the reimbursement of capital expenditures may not exceed $4.0 million at any time, and after the application of 1994 available income, there will be no unused or unappropriated capital fund balance. During 1994, $866,000 of the outstanding Debentures were reacquired.

The Registrant's total interest payments approximate interest expense net of intercompany interest described in Note 2.

6. Lease Commitments

The Registrant leases a general office building, computer equipment and transportation equipment under long-term and contingent lease agreements. The following amounts relating to capital leases are included in properties:

| (Thousands of Dollars) | 1994 | 1993 |
|---|---|---|
| Leased properties | $ 77,093 | $ 88,960 |
| Accumulated amortization | (55,526) | (61,581) |
| Net | $ 21,567 | $ 27,379 |

Future minimum lease payments for capital and operating leases with initial or remaining noncancellable lease terms in excess of one year as of December 31, 1994 are as follows:

| (Thousands of Dollars) | Operating Leases | Capital Leases |
|---|---|---|
| 1995 | $ 24,786 | $ 8,115 |
| 1996 | 17,483 | 8,261 |
| 1997 | 13,899 | 6,041 |
| 1998 | 12,203 | 3,109 |
| 1999 | 11,768 | 2,249 |
| Later years | 98,521 | 1,954 |
| Total minimum lease payments | $178,660 | 29,729 |
| Amount representing interest | | 5,596 |
| Present value of net minimum capital lease payments | | $24,133 |

A summary of rental expense charged to operations is as follows:

| (Thousands of Dollars) | 1994 | 1993 | 1992 |
|---|---|---|---|
| Minimum rentals under long-term operating leases | $ 22,557 | $ 22,716 | $ 22,907 |
| Contingent rentals under operating leases (net): | | | |
| Transportation equipment | 258,667 | 213,070 | 211,405 |
| Joint facility | 11,566 | (3,200) | 12,814 |
| Computer equipment | 9,205 | 8,065 | 6,381 |
| Total | $301,995 | $240,651 | $253,507 |

7. Capital Stock

Concurrent with the acquisition of the Katy, 80 shares of the Registrant's $1.00 par value common stock were exchanged for 80 shares of $1.00 par value Class A stock. The remaining 920 shares of common stock outstanding and the 80 shares of Class A stock have identical voting rights and other privileges except with respect to dividends.

The Class A stock is entitled to a cash dividend whenever a dividend is declared on the common stock, in an amount which equals 8% of the sum of the dividends on both the Class A stock and the common stock. However, dividends may be declared and paid on the Class A stock only when there is unappropriated available income in respect of prior calendar years which is sufficient to make a sinking fund payment equal to 25% of such dividend for the benefit of the Debentures or the Certificates (see Note 5). To the extent that dividends are paid on the common stock but not the Class A stock because the amount of unappropriated available income is insufficient to make such a sinking fund payment, a special cash dividend on the Class A stock shall be paid when sufficient unappropriated available income exists to make the sinking fund payment. Such insufficiency does not affect the Registrant's right to declare dividends on the common stock. Available income for 1994 will be sufficient to provide for a $6.3 million special cash dividend on the Class A stock to be paid in 1995. After such payment, dividends in arrears on the Class A stock will total $26.6 million.

There are no other dividend restrictions on the Registrant's capital stock other than those described in Note 5.

8. Retirement Plans

The Registrant participates in the Corporation's defined benefit pension plans covering substantially all salaried employees. Pension plan benefits are based on years of service and compensation during the last years of employment.

Company contributions to the plans are calculated based on the Projected Unit Credit actuarial funding method and are not less than the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. Pension expense allocated to the Registrant under the Corporation's plans amounted to $19.7 million in 1994, $17.7 million in 1993, and $14.8 million in 1992. In addition, the Registrant's employees are covered by the Railroad Retirement System. Contributions made to the system are expensed as incurred.

The Registrant provides postretirement health care and life insurance benefits to substantially all salaried and certain hourly employees through participation in the Corporation's postretirement benefit plans. The Corporation adopted the provisions of SFAS No. 106 (See Note 1) in January 1993. Agreement employees' health care benefits are covered by a separate multiemployer plan and therefore are not subject to the provisions of this Statement. The Corporation does not currently prefund health care and life insurance benefit costs. The Registrant's cash payments for these benefits were $5 million in each of 1994 and 1993 and its 1994 and 1993 postretirement benefit expenses were $5 million and $9 million, respectively. At December 31, 1994 and 1993, the Registrant's Accumulated Postretirement Benefit Obligations were $92 million and $93 million, respectively, while its total OPEB liability on each of the same dates was $119 million.

9. Contingent Liabilities

There are various lawsuits pending against the Registrant. In addition, the Registrant generates, transports, remediates and disposes of hazardous and non-hazardous waste in its current and former operations, and is subject to Federal, state and local environmental laws and regulations. The Registrant is currently participating in the investigation and remediation of numerous sites. Where the remediation costs can be reasonably determined, and where such remediation is probable, the Registrant has recorded a liability. 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, and existing technology, laws and regulations. Certain Federal legislation imposes joint and several liability for the remediation of identified sites; consequently, the Registrant's ultimate environmental liability may include costs relating to other parties in addition to costs relating to its own activities at each site. The Registrant believes that it has adequately accrued for its ultimate share of costs at sites subject to joint and several liability. The Registrant does not expect that the lawsuits or environmental costs will have a material adverse effect on its consolidated financial condition or results of operations.

10. Supplemental Quarterly Financial Information (Unaudited)

Selected unaudited quarterly financial information for 1994 and 1993 are as follows:

| (Thousands of Dollars) | | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|---|
| Operating Revenues: | 1994 | $568,216 | $588,670 | $583,197 | $580,708 | $2,320,791 |
| | 1993 | 527,474 | 541,647 | 529,843 | 550,140 | 2,149,104 |
| Operating Income: | 1994 | 94,510 | 131,691 | 133,702 | 105,788 | 465,691 |
| | 1993 | 84,891 | 114,528 | 98,948 | 111,766 | 410,133 |
| Net Income (Loss): | 1994 | 50,794 | 72,559 | 71,666 | 52,505 | 247,524 |
| | 1993 | (84,521)(a) | 61,644 | 26,966(b) | 69,678 | 73,767(a) |

(a) Income before the cumulative effect of accounting changes (see Note 1) was $40.6 million for the first quarter of 1993 and $198.9 million for the total year 1993.

(b) Includes a $23.1 million increase in income tax expense resulting from the retroactive portion of the 1993 Tax Act (see Note 4), and the impacts of severe flooding in the midwestern United States.

MISSOURI PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS

1994 COMPARED TO 1993

Net income for the Registrant was $247.5 million in 1994. Before the effects of the 1993 accounting adjustments (comprising the changes in accounting principles described in Note 1 to the Financial Statements and the $23.1 million one-time recognition of deferred income taxes related to prior periods described in Note 4 to the Financial Statements), earnings would have improved $25.4 million (11%) from $222.1 million a year ago. 1993 results also included the adverse effects of the flooding in the Midwest and the severe winter.

OPERATING REVENUES

Operating revenues increased $172 million (8%) to $2.3 billion, reflecting a 10% increase in carloadings offset by a 1% decline in average revenue per car, principally resulting from volume growth for lower-rated commodities (intermodal and energy). Carloadings increased in intermodal (24%), energy (17%), automotive (15%), chemicals (6%) and food/consumer/government (5%), while decreases occurred in grain and grain products (3%), and metals/minerals/forest (1%).

OPERATING EXPENSES

Operating expenses totaled $1.9 billion, $116 million (7%) higher than a year ago. Volume growth and inflation accounted for a $50 million rise in equipment and other rents. Employee injury expense rose $19 million as continuing declines in the number of injuries were more than offset by higher average settlement costs per injury. In addition, other costs grew $29 million due to a reduction in cost offsets associated with car repairs for other carriers and other services performed for outside parties. Wage and benefit costs also rose $10 million, as higher volumes and inflation were partially offset by continued improvements in labor productivity. Depreciation expense grew $9 million because of continued investment in equipment and capacity. Fuel and utilities costs rose only $1 million as lower fuel prices and an improved consumption rate combined to offset the impact of volume growth.

OPERATING INCOME

Operating income rose $56 million (14%) to $466 million as a result of volume growth and improved operating efficiencies and labor productivity.

OTHER CHANGES

Interest expense decreased $8 million, primarily as a result of lower interest on equipment trust obligations. Other income decreased $15 million, due to reduced gains on extinguishment of debt and other miscellaneous items. Income taxes were essentially unchanged as higher pretax earnings offset last year's recognition of deferred income taxes relating to prior periods.

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
# WASHINGTON, D.C. 20549
# FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-12166

## SOUTHERN PACIFIC RAIL CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 84-1092482<br>(I.R.S. Employer Identification No.) |
| Southern Pacific Building<br>One Market Plaza<br>San Francisco, California<br>(Address of principal executive offices) | 94105<br>(Zip Code)<br>(415) 541-1000<br>(Registrant's telephone number, including area code) |

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 $.0001 per share) | New York Stock Exchange |

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

None
(Title of Class)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes X 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. X

As of March 15, 1995, the aggregate market value of the registrant's Common Stock held by non-affiliates (using the New York Stock Exchange closing price) was approximately $1.8 billion.

The number of shares outstanding of the registrant's Common Stock as of March 15, 1995 was 156,140,088.

Portions of the following documents are incorporated by reference into this Report: (1) registrant's Annual Report to Stockholders for the year ended December 31, 1994 (Part II); and (2) registrant's definitive Proxy Statement for the annual meeting of stockholders to be held on April 27, 1995 (Part III).

**SOUTHERN PACIFIC RAIL CORPORATION**

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Unless the context otherwise requires, references herein to the Company include Southern Pacific Rail Corporation, ("Southern Pacific") and its subsidiaries, including Southern Pacific Transportation Company ("SPT") and Rio Grande Holding, Inc. ("RGH"); the subsidiaries of SPT, including St. Louis Southwestern Railway Company ("SSW"), SPCSL Corp. ("SPCSL") and The Denver and Rio Grande Western Railroad Company ("D&RGW"); and the subsidiaries of RGH. References herein to the Company prior to August 18, 1993 include SPTC Holding, Inc. ("SPTCH"), a wholly owned subsidiary of the Company and the parent of SPT that was merged into the Company on such date. Effective October 1, 1994, D&RGW became a subsidiary of SPT. Prior to that date, D&RGW was a subsidiary of RGH.

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## PART I

### ITEMS 1. AND 2. BUSINESS AND PROPERTIES

#### General

The Company, through the integrated network of its principal subsidiaries, transports freight over approximately 14,500 miles of first main track throughout the western United States. The Company operates in 15 states over five main routes. The Company serves most west coast ports and large population centers west of the Mississippi and connects with eastern railroads at Chicago, St. Louis, Kansas City, Memphis and New Orleans. The Company's rail lines reach the principal Gulf ports south from Chicago and east from the Los Angeles basin. It interchanges with Mexican railroads at six gateways into Mexico..

The principal commodities hauled in the Company's carload operations are chemicals and petroleum products, food and agricultural products, forest products (including paper, paper products and lumber) and coal. Intermodal container and trailer operations continue to be the Company's largest single traffic category. In 1994, the largest five shippers accounted for less than 17 % of the Company's gross freight revenues, with no shipper providing more than 6 % of such revenue.

The Company became the nation's sixth largest railroad, based on revenues, in October 1988 when it acquired SPT from Santa Fe Pacific Corporation ("Santa Fe"). In 1989 and 1990, the Company acquired access to Chicago from St. Louis and Kansas City, respectively. For the five years preceding its acquisition by the Company, SPT had been held in trust pending the decision of the Interstate Commerce Commission (the "ICC") that denied Santa Fe's requested merger with SPT. During this period, SPT fell significantly behind other Class I railroads that were then consolidating, streamlining and strengthening their railroads.

In addition to its rail business, the Company historically has received substantial cash flow from "traditional" real estate sales and leasing activities. More recently, transit corridor sales have become a dominant component of the Company's asset sales program, with the Company usually retaining operating rights over these corridors to continue freight rail service to its customers.

#### Common Stock and Debt Transactions

On August 17, 1993, the Company closed the offering and sale (the "IPO") of 30,783,750 shares of Common Stock and issued and sold (the "Debt Offering") $375 million principal amount of 9 3/8% Senior Notes due 2005 (the "Senior Notes") for net proceeds of approximately $757.1 million. The proceeds were used to repay $481.2 million of debt and debt related costs, to purchase $99.1 million of equipment operated pursuant to operating leases, to redeem the Company's $75.0 million 12% preferred stock and for general corporate purposes. On March 2, 1994, the Company closed an additional offering of 25,000,000 shares of Common Stock (the "1994 Offering") for net proceeds of $503.6 million. The proceeds were used to repay $292 million of debt and for general corporate purposes.

#### Railroad Operations

The following table sets forth certain freight and operating statistics relating to the Company's rail operations for the periods indicated. The operating ratios show consolidated operating expenses expressed as a percentage of consolidated operating revenues. The indicated increases in revenue ton-miles and carloads reflect an improving economy and implementation of the Company's business strategy. The decrease in revenue per ton-mile evidences the intense competitive pressures under which the Company operates, particularly those affecting its intermodal activities. The increase in revenue ton-miles per gallon of fuel primarily reflects the results of the Company's on-going program to rehabilitate and upgrade the quality of its locomotive fleet. The increase in labor productivity, as measured by revenue ton-miles per employee, is primarily the result of Company programs to reduce the number of employees combined with increases in traffic volume.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1994 | 1993 | 1992 | 1991 | 1990 |
| Revenue ton-miles (billions) | 139.1 | 123.6 | 115.4 | 104.1 | 101.6 |
| Revenue per ton-mile (dollars) | $.021 | $.022 | $.023 | $.025 | $.026 |
| Total carloads (thousands)[1] | 2,274 | 2,078 | 1,995 | 1,873 | 1,876 |
| Average length of haul (miles) | 1,026 | 990 | 996 | 965 | 890 |
| Gallons of fuel (millions) | 436.0 | 408.9 | 390.3 | 360.2 | 354.5 |
| Average cost per gallon | $ .58 | $ .62 | $ .61 | $ .63 | $ .71 |
| Revenue ton-miles per gallon | 319 | 302 | 296 | 289 | 287 |
| Total employees (year end) | 18,010 | 18,982 | 22,793 | 23,396 | 23,814 |
| Revenue ton-miles per employee (thousands) | 7,456[2] | 5,845[2] | 5,063 | 4,449 | 4,266 |
| Operating ratio (%) | 89.0% | 96.5% | 96.2% | 106.0%[3] | 94.9% |

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[1] Includes intermodal carloads with an assumed two containers per carload. Intermodal carloads hold from two to ten containers.

[2] Calculated based on average monthly employment for 1994 and 1993.

[3] Includes a special charge of $259.9 million. The operating ratio excluding the special charge would have been 96.7%.

**Service Territory**

The Company's routes and service territory are described below.

*Central Corridor Route.* The Central Corridor Route links Northern California and the Pacific Northwest with Kansas, Missouri and Illinois, traversing the Rocky Mountain states via the D&RGW. The eastern end of this route reaches the rail gateway cities of Kansas City, St. Louis and Chicago. This route handles a diverse mix of traffic including eastbound forest products, perishables and processed foods, as well as significant volumes of finished automobiles and other manufactured goods. The bulk of the Company's low sulphur, high BTU coal traffic originates along this route in the mountainous territory of Colorado and Utah and moves east.

*Pacific Coast Route.* The north-south route connects the forest product resource base of the Pacific Northwest with the major consuming markets in California and Arizona.

*Sunset Route.* The Company's Sunset Route is a direct line from the Los Angeles Basin to Houston and other Gulf Coast ports, as well as the eastern rail gateways of Memphis and New Orleans. This route structure supports the Company's presence in carload origination of chemicals and plastics in the Gulf region.

*Golden State Route.* This route connects Southern California and Arizona with the industrial midwest and the rail gateways of Kansas City, St. Louis and Chicago. A wide range of products is handled in the corridor including intermodal, metals and ores, agricultural products and miscellaneous manufactured products.

*Mid-America Route.* The Mid-America Route (also known as the "Cotton Belt Route") links the petrochemical producing region along the Gulf of Mexico with industrial users and consuming markets in the midwest and northeast. The Cotton Belt serves the cities of Dallas/Ft. Worth, Shreveport, Memphis and St. Louis.

*Mexico.* The Company serves Mexico through interchanges with Mexican railroads at six gateways in California,

Texas and Arizona.

**Traffic**

Set out below is a comparison of the Company's carload volumes and gross freight revenues (before contract allowances and adjustments) by commodity groups in 1994. A more detailed discussion of the traffic generated by each group follows the table.

| | Year Ended December 31, 1994 | | | |
|---|---|---|---|---|
| | Carloads | | Gross Freight Revenue | |
| | Number (Thousands) | % of Total | Dollars (Millions) | % of Total |
| Intermodal | 728.1 | 32.0% | $ 851.9 | 26.2% |
| Chemical and petroleum products | 342.7 | 15.1 | 614.9 | 18.9 |
| Coal | 303.2 | 13.3 | 299.3 | 9.2 |
| Food and agricultural products | 247.0 | 10.9 | 414.7 | 12.8 |
| Forest products | 226.2 | 9.9 | 432.0 | 13.3 |
| Metals and ores | 181.5 | 8.0 | 275.3 | 8.5 |
| Construction materials and minerals | 171.5 | 7.6 | 172.0 | 5.3 |
| Automotive | 73.4 | 3.2 | 188.7 | 5.8 |
| Total | 2,273.6 | 100.0% | $3,248.8 | 100.0% |

*Intermodal.* The intermodal freight business consists of hauling freight containers or truck trailers by a combination of water, rail and motor carriers, with rail carriers serving as the link between motor carriers and between ports and motor carriers. The Company's marketing efforts are focused on direct negotiations with major steamship lines for international container traffic and with marketing agents (primarily shipper agents and consolidators) and motor carriers for domestic container and trailer traffic.

The Company's intermodal revenues are derived in large part from goods produced in the Pacific Rim and shipped by rail from west coast ports to east coast markets. This traffic is carried on the Company's lines from its terminals at Oakland or Los Angeles/Long Beach to Chicago, St. Louis, New Orleans or Houston, or through connecting carriers, beyond to the U. S. eastern seaboard. Most of this traffic uses the Company's Intermodal Container Transfer Facility ("ICTF") in Southern California. In some cases, motor carriers and railroads have begun to jointly market intermodal service. The Company provides stack-train and trailer-on-flatcar service among its 27 intermodal facilities across the system.

*Chemical and Petroleum Products.* The Company transports a wide range of industrial, chemical and plastic products which constitute the primary commodity and product groups included in this traffic. Most of the traffic originates within Texas where the Company directly serves chemical and plastics plants. The Company's routes enable it to transport these products from Texas directly to end-user markets on the west coast and through interchanges at major gateways to end-user markets on the east coast. Shipper demand is closely tied to fluctuations in end-user demand and also is sensitive to the availability of safe, predictable transportation service.

*Coal.* The Company serves important sources of low-sulfur, high BTU coal in Colorado and Utah, which represents a growing share of the Company's commodity mix. This traffic is subject to intense competition from other coal sources, particularly the Powder River Basin in Wyoming and the Illinois Basin.

*Food and Agricultural Products.* Grain and grain products constitute the primary commodity groups included in this traffic. The Company is a major transporter of grain products to Mexico. Shipper demand is affected by competition among sources of grain and grain products as well as price fluctuations in international markets for key commodities. Other food and consumer goods included in this traffic are shipments primarily from sources in California to consumer markets in

the eastern part of the U. S.

*Forest Products.* This traffic includes lumber stock, plywood and various paper products. Most of the traffic originates in Oregon and Northern California with destinations throughout the U.S. However, certain product sources in the Pacific Northwest have been adversely affected by environmental concerns. In response, the Company is pursuing alternate sources in Canada and the Southern U.S. to increase volumes. The transportation market for lumber is affected by housing starts and remodeling activity, while the transportation market for paper products is driven by end-user demand for packaging and newsprint.

*Metals and Ores.* Metals and ores traffic includes both ferrous and non-ferrous metals and is concentrated on the steel mills of the west and shipments from copper mines and smelters in the southwest. These markets are sensitive to demand for construction and pipeline projects along with demand for industrial production and consumer goods with substantial metals components. The markets also are affected by commodity prices in international markets and subject to the substitution of imported metals.

*Other.* The traffic generated by the business development groups discussed above amounted to approximately 88.9% of the Company's gross freight revenues for 1994. Other commodity and product groups included in the Company's traffic mix include automobiles, automouve parts, construction materials, non-metallic minerals and government traffic.

*Mexico.* The Company's Mexico Group, headquartered in Houston, serves as a marketing and service link between the Company's business development groups and markets in Mexico. The Company maintains a working relationship with FNM. During 1994, approximately 176,000 carloads, or 7.7% of the Company's total carloads, were from traffic with Mexico. FNM and the Company are working on establishing through rates for carload shipments of selected commodities through all six of the gateways to Mexico served by the Company. The Company also provides intermodal container service linking the ICTF and Mexico City and has developed joint marketing arrangements with Mexican trucking companies establishing single through rates on a truck-rail-truck delivery system.

**Physical Plant and Equipment**

*Roadway, Yards and Structures.* At December 31, 1994, the Company had approximately 22,500 miles of track in operation, consisting of approximately 14,500 miles of first main track and approximately 8,000 miles of additional main track, passing track, way switching track and yard switching track. Miles of first main track include operating rights on 2,578 miles of track owned by other railroads. The Company is analyzing certain branchlines for possible sale, lease or abandonment. During 1994, the Company sold over 345 miles of such lines in Oregon and California. The Company will continue in its efforts to dispose of the branchlines and will continue to identify additional properties, including other branch lines, rail yards and terminals, that can be made available for sale, lease or abandonment. To the extent proceeds from such dispositions are less than the Company's basis in those properties, a non-cash financial statement loss would be recognized.

Principal railroad yard facilities owned by the Company are located at Eugene, Oregon; Sacramento, Roseville, Oakland, Los Angeles and West Colton, California; Houston, Texas; Pine Bluff, Arkansas; and Kansas City, Kansas; Denver, Pueblo and Grand Junction, Colorado, and Salt Lake City, Utah. As part of its effort to rationalize operations, the Company is identifying and assessing opportunities for consolidation of its railroad yard facilities.

*Equipment.* In late 1993 and throughout 1994, as part of a program to upgrade its locomotive fleet, the Company acquired 150 new locomotives, 17 of which were delivered in the last quarter of 1993 with the balance delivered in 1994. Additionally, the Company has acquired 133 remanufactured locomotives of which 115 were delivered in 1994 and the balance in early 1995. These locomotives were financed by capital leases (for which the capitalized lease obligation was approximately $221 million). In 1994, the Company acquired through capital lease financing approximately 1,400 freight cars (700 newly manufactured and 700 remanufactured) for which the total capitalized lease obligation was approximately $56 million. The Company has also received approximately 1,600 additional reconditioned freight cars in 1994 on which it expects to complete capital lease financing in 1995. In addition, the Company acquired 350 used freight cars in 1994 under

operating leases.

At December 31, 1994, the Company owned (including equipment under capitalized leases) or leased the equipment described in the table below. The table excludes equipment held under short-term leases. At December 31, 1994, there were 150 locomotives subject to short-term leases. At December 31, 1994, there were approximately 1,585 non-serviceable freight cars in storage, which included freight cars awaiting sale to a third party for rehabilitation and leaseback and freight cars scheduled for repair.

| | December 31, 1994 | | | | | |
|---|---|---|---|---|---|---|
| | Owned | | Leased | | Total | |
| Description | Units | Average Age (years) | Units | Average Age (years) | Units | Average Age (years) |
| **Locomotives:** | | | | | | |
| Road | 1,769 | 10.8 | 295 | 12.9 | 2,064 | 11.1 |
| Other | 337 | 20.4 | 12 | 20.8 | 349 | 20.4 |
| Total | 2,106 | | 307 | | 2,413 | |
| **Freight:** | | | | | | |
| Box | 15,441 | 19.0 | 2,454 | 10.6 | 17,895 | 16.3 |
| Tank | 72 | 25.3 | 18 | 3.1 | 90 | 20.9 |
| Gondola | 2,773 | 20.4 | 2,658 | 5.8 | 5,431 | 13.3 |
| Hopper | 8,924 | 19.6 | 5,431 | 10.5 | 14,355 | 16.0 |
| Flat | 5,134 | 21.7 | 1,724 | 7.8 | 6,858 | 18.2 |
| Total | 32,344 | | 12,285 | | 44,629 | |
| **Company service units and cabooses** | 1,338 | | 41 | | 1,379 | |
| **Highway trailers and tractors** | - | | 4,576 | | 4,576 | |

At December 31, 1993, the Company owned and leased 1,878 and 357 locomotives, respectively and 31,481 and 10,329 freight cars, respectively.

The components of the Company's equipment lease and rental expense are shown below (in million of dollars):

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1994 | 1993 | 1992 | 1991 | 1990 |
| Operating leased equipment | $87.2 | $ 99.1 | $ 72.9 | $ 55.8 | $ 57.2 |
| Net car hire expense from other railroads | $7.1 | $4.8 | 42.4 | 41.6 | 29.4 |
| Private cars, intermodal and other equipment | 183.7 | 177.1 | 172.7 | 156.5 | 153.7 |
| Total | $328.0 | $331.0 | $288.0 | $253.9 | $240.3 |

*Capital Expenditures and Maintenance.* Improvement and on-going maintenance of roadway, structures and equipment are essential components of the Company's efforts to improve service and reduce operating costs. The Company has made the following railroad capital expenditures in order to maintain and improve train service (in millions of dollars):

**Capital Expenditures**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1994 | 1993[1] | 1992 | 1991 | 1990 |
| Roadway and structures | $217.5 | $209.5 | $263.4 | $231.5 | $272.6 |
| Railroad equipment: | | | | | |
| Locomotives | 69.9 | 21.1 | 70.4 | 45.2 | 73.4 |
| Freight cars | 6.4 | 6.5 | 0.2 | 2.4 | 7.9 |
| Other | 5.2 | 7.3 | 4.9 | 8.9 | 31.9 |
| Total | $299.0 | $244.4 | $338.9 | $288.0 | $385.8 |
| Capitalized Leases | $265.2 | $57.0 | — | — | — |

(1) Excludes equipment previously under operating leases purchased with $65.3 million of the proceeds of the IPO and the Debt Offering ($30.1 million for locomotives and $35.2 million for freight cars).

The Company's capital expenditures for railroad operations for 1995 are expected to be approximately $324 million (exclusive of capital leases) including $278 million for roadway and structures and $46 million for railroad equipment and other items.

The Company has ordered an additional 206 AC powered locomotives to be financed by capitalized lease financing that are scheduled to be delivered during the second and third quarters of 1995. In addition, the Company has ordered 920 new hopper cars and expects to receive approximately 1,500 reconditioned freight cars in 1995. The Company expects to finance these acquisitions through capitalized lease financing. The total expected capitalized lease obligation to be incurred during 1995, including the 1,600 reconditioned freight cars received in 1994 for which financing is scheduled to be arranged in 1995, is approximately $400 million.

The following table shows the Company's expenses for on-going maintenance and repairs of roadway and structures and railroad equipment (including administrative and inspection costs) for the periods indicated (in millions of dollars):

**Maintenance Expenditures**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1994 | 1993 | 1992 | 1991 | 1990 |
| Roadway and structures | $202.8 | $247.1 | $282.4 | $297.2 | $290.8 |
| Railroad equipment: | | | | | |
| Locomotives | 236.0 | 240.9 | 228.5 | 202.8 | 203.6 |
| Freight cars | 133.7 | 127.4 | 149.3 | 154.1 | 153.1 |
| Other | (0.6) | 3.6 | 7.6 | 8.3 | 11.1 |
| Total | $571.9 | $619.0 | $667.8 | $662.4 | $658.6 |

**Transit Corridor and Real Estate Sales**

The disposition of urban and intercity transit corridors and surplus real estate, mostly in metropolitan areas along the Company's rights of way, is a major component of the Company's business strategy and is conducted as part of the Company's ordinary course of business. The Company markets properties that are classified generally into two distinct types: transit corridors and consolidated freight corridors, which are typically sold to public agencies, and traditional real estate, which is typically sold to different groups of potential buyers. From January 1, 1989 through December 31, 1994, the Company received over $1.7 billion in proceeds from its real estate asset disposition program. During that time, such sales were necessary for the Company to meet its capital expenditure, debt service and other cash needs. Of the $1.7 billion in proceeds, a total of $362 million was received during 1993 and 1994, with $235 million coming from the Alameda Corridor sale in December 1994. The Company has identified certain operating properties that it might sell in the future if it can do so without impacting its railroad operations. Management has not made a firm decision to remove any of these properties from its operating system. In order to enhance the value of certain properties and facilitate their disposition, the Company has participated in the past and may in the future participate with others in the development of such properties by contributing the property and funding to joint ventures or other entities, participating in sale and leaseback arrangements and engaging in other transactions that do not involve immediate cash proceeds. In addition, in order to facilitate sales or otherwise enhance values of transit corridors and other facilities, the Company may form joint ventures with private partners or public entities or engage in other innovative transactions.

*Transit Corridors.* The Company's sales efforts have focused particularly on, and most of the proceeds since January 1, 1989 resulted from, the sale of transit corridor properties that consist of the Company's rights of way and related tracks and rail stations that provide a natural corridor over which a metropolitan, regional or other geographic area can establish and operate public transportation systems or consolidated freight corridors (for use by more than one railroad). The Company usually retains freight operating rights over these corridors to continue rail service to its customers. During 1994, the Ports of Los Angeles and Long Beach purchased SPT's Alameda Corridor for $235 million. Earlier sales include the Los Angeles County Transportation Commission's purchase of over $400 million of SPT's property and the Peninsula Corridor Joint Powers Board's purchase of SPT's Peninsula Corridor for approximately $220 million, with an additional $110 million of property covered by purchase options, approximately $79 million of which have not lapsed, been exercised or extinguished.

*Traditional Real Estate.* In addition to transit corridors, the Company sells traditional real estate that consists principally of industrial and commercial properties located in developed areas on the Company's system. The Company's supply of properties includes several thousand parcels that are available or could be made available for sale within the next few years (without including properties currently leased by the Company to tenants).

*Lease Activities.* The Company actively administers approximately 21,000 leases that represent most of the Company's annual rental income. Generally, the Company does not target its leased properties for sale unless the annual rental does not reflect an appropriate return on the property. Under its leases, the Company receives annual gross rental income of nearly $45 million, which includes income from uses of its rights of way for such purposes as signboards, longitudinal fiber optics and pipelines.

**Employees and Labor**

Labor and related expenses accounted for approximately 40% of the Company's railroad operating expenses in 1994. At December 31, 1994, the Company employed 18,010 persons, which represents a reduction of approximately 972 from January 1, 1994. The December 31, 1994 employment figure includes 17,785 employed in the Company's rail operations. These reductions resulted from attrition and voluntary separations, severance, early retirement programs and furloughs.

At December 31, 1994, approximately 88% of the Company's railroad employees were covered by collective

bargaining agreements with railway labor organizations that are organized along craft lines, where employees are grouped together by job and historical practice. Historically, many collective bargaining agreements in the railroad industry have been negotiated on a nationwide basis with the railroads being represented by the National Railway Labor Conference. In November 1993, the Company withdrew its participation with the National Railway Labor Conference with respect to the current bargaining round indicating it would negotiate wage and work rule agreements separately from any nationwide negotiations conducted by other Class I railroads.

Labor relations in the railroad industry are subject to extensive governmental regulation under the Railway Labor Act ("RLA"). The most recent national collective bargaining agreements with the major railway labor organizations and the railroads, including the Company, expired in 1988, and negotiations failed to resolve the wage and work rule issues. After various presidential and legislative actions in 1991, because of its constrained financial condition, the Company was authorized to negotiate separately with certain of its employee unions, rather than on a nationwide basis with the railroads being represented by a bargaining committee, as is typically the case. These negotiations resulted in wage rates that are lower than the national rates for most of the Company's union employees and relieved the Company of the requirement to make certain lump sum payments to employees. These concessions were applied to the Company's railroad subsidiaries (other than D&RGW) and represent a substantial savings to the Company in terms of the labor costs it would have otherwise incurred. The agreements cover over 15,400 union employees of the Company.

In November 1993, the company entered into a labor agreement with the United Transportation Union ("UTU"), which represents approximately 2,300 trainmen and switchmen on the Company's Western Lines. The agreement, which resolved the issues from 1988 and continues through 1997, provided for a reduction of 210 surplus employees, the elimination of a reserve board (employees who are paid a percentage of salary but stay home awaiting recall), and a wage freeze through the end of 1997. As a result, the Company became the only Class I railroad without reserve boards for any of its lines.

All of the Company's labor agreements became subject to modification (except the Western Lines UTU Agreement) in January 1995. Wages for approximately half of the Company's employees covered by these agreements are required to return to wage levels prevailing under nationwide railway collective bargaining agreements in 1995. Wages for the other employees covered by the agreements (including the Western Lines UTU) do not require restoration to national wage levels and are subject to resolution in the next round of negotiations which began in late 1994. In addition, all of the Company's labor agreements (except for the agreement related to UTU employees on the Company's Western Lines) provide for cost-of-living increases on a semi-annual basis beginning July 1, 1995. The additional cost to the Company of these automatic increases could be substantial.

As a result of local negotiations in the current bargaining round, the Company has entered into six agreements which run through 1997 (includes the Western Lines UTU Agreement). Those agreements, which cover in excess of 3,800 employees, have been ratified by the union membership and cover all trainmen and switchmen on the St. Louis Southwestern Railway Company, the signalmen systemwide, yardmasters systemwide, switchmen on the Company's Eastern Lines, and the Company's intermodal facilities at Long Beach and Oakland. Those agreements do not provide for general wage increases; however, they do provide for a 3% lump sum payment based on the performance of the Company as measured by its operating ratio. These agreements also provide for cost of living increases on July 1,1995 and on July 1, 1996 but none thereafter. As of February 22, 1995, the Company is in negotiations with its clerical employees, locomotive engineers, shop craft employees and train dispatchers representing approximately 9,500 employees..

Under the RLA, labor agreements are renegotiated when they become open for modification, but their terms remain in effect until new agreements are reached. Typically, neither management nor labor is permitted to take economic action until extended procedures are exhausted.

Railroad industry personnel are covered by the Railroad Retirement Act ("RRA") instead of the Social Security Act. Employer contributions under the RRA are currently substantially higher than those under the Social Security Act and may rise further because of the increasing proportion of retired employees receiving benefits relative to the number of working employees.

Railroad industry personnel are also covered by the Federal Employer's Liability Act ("FELA") rather than by state

workers' compensation systems. FELA is a fault-based system, with compensation for injuries settled by negotiation and litigation. By contrast, most other industries are covered under state-administered no-fault plans with standard compensation schedules.

**Governmental Regulation**

The Company is subject to environmental, safety, health and other regulations generally applicable to all businesses. In addition, the Company, like other rail common carriers, is subject to regulation by the ICC, the Federal Railroad Administration, state departments of transportation and some state regulatory agencies. The Company itself and its non-railroad subsidiaries are not subject to regulation by the ICC or other railroad regulatory bodies.

The ICC has jurisdiction, which is limited in certain circumstances, over, among other things, rates charged by rail carriers for certain traffic movements, service levels, car rental payments, the issuance or guarantee of railroad securities, the terms under which one railroad may gain access to another railroad's traffic or facilities, extension or abandonment of rail lines, consolidation, merger or acquisition of control of rail common carriers and labor protection for certain transactions. Currently, the United States Congress has under consideration proposals to reduce the scope of regulation over railroads, eliminate the ICC and transfer remaining regulatory functions to another federal agency. It is unclear whether, or to what extent, any such proposals will be enacted and whether any changes in current regulation of the industry would materially affect the Company.

The Federal Railroad Administration has jurisdiction over railroad safety and equipment standards. State departments of transportation and regulatory agencies also have jurisdiction over certain local safety and operating matters, and these state and local agencies have become more aggressive in their exercise of jurisdiction.

**Competition**

The Company's business faces intense competition from railroads and motor carriers. Competition with other railroads and modes of transportation is generally based on the rates charged, as well as the quality and reliability of the service provided. The Company's intermodal traffic and certain other traffic confront highly price sensitive competition, particularly from motor carriers. Some competitors have substantially greater financial and other resources than the resources of the Company. This factor and other competitive pressures have led to a downward pressure on rates. If this were to result in declining margins, it could have an adverse effect on the Company's operating results.

The consolidation in recent years of major western rail systems has resulted in particularly strong competition in the service territory of the Company. Further consolidation of the Company's rail competitors could adversely affect the Company's competitive position and operating results. Such further consolidations include the acquisition by Union Pacific Railroad Company ("Union Pacific") of control of the Chicago and Northwestern Holdings Corp. ("CNW"), which was approved by the ICC in an order served March 7, 1995, and the proposed merger of Burlington Northern Railroad Company ("BN"), and The Atchison Topeka and Santa Fe Railway Company ("ATSF"), which has been approved by their respective shareholders and for which BN and ATSF filed their application for approval with the ICC in November 1994. In their application to the ICC, BN and ATSF asserted that the Company's gross revenues from rail operations would be reduced by approximately $60.8 million as a result of diversions of traffic if the proposed merger is completed. The Company currently is conducting its own studies and is obtaining assessments of potential diversions from independent experts in preparation for its filings with the ICC relating to the proposed BN/ATSF merger. Preliminary analysis suggests, however, that diversions resulting from the merger could substantially exceed the amounts asserted by BN and ATSF if appropriate conditions are not obtained or imposed in the merger proceedings. Because competition otherwise will be reduced by the proposed merger, the Company will be requesting conditions (such as operating and haulage rights and access to certain shipping points) that would preserve competition and substantially prevent a loss of revenue. The Company is seeking and expects to obtain significant shipper support for conditions it will be requesting. There is no assurance, however, that the conditions requested by the Company will be obtained or imposed.

Certain segments of the Company's freight traffic, notably intermodal, face highly price sensitive competition from trucks, although improvements in railroad operating efficiencies are tending to lessen the truckers' cost advantages. Trucks are not obligated to provide or to maintain rights of way and they do not have to pay real estate taxes on their routes. In recent

years, the trucking industry diverted a substantial amount of freight from the railroads as truck operators' efficiency over long distances increased. Because fuel costs constitute a larger percentage of the trucking industry's costs, declining fuel prices disproportionately benefit trucking operations as compared to railroad operations. Truck competition has also increased because of legislation removing many of the barriers to entry into the trucking business and allowing the use of wider, longer and heavier trailers and multiple trailer combinations in many areas.

**Environmental Matters**

The Company's operations are subject to extensive federal, state and local regulation under environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters and the generation, handling, storage, transportation, treatment and disposal of waste or other materials. Inherent in the railroad operation of the Company is the risk of environmental liabilities as a result of both current and past operations. The Company regularly transports chemicals and other hazardous materials for shippers, as well as using hazardous materials in its own operations. Environmental liability can extend to previously owned properties, leased properties and properties owned by third parties, as well as properties currently owned and used by the Company. Environmental liabilities can be asserted by adjacent landowners or other third parties in toxic tort litigation. Also, the Company has indemnified certain property purchasers as to environmental contingencies.

In addition to costs incurred on an on-going basis associated with regulatory compliance in its business, the Company may have environmental liability in three general situations. First, under the Federal Comprehensive Environment Response, Compensation and Liability Act of 1980 as amended ("CERCLA"), it might have liability for having disposed of wastes at waste disposal sites that are believed to pose threats to the public health or the environment, without regard to fault or the legality of waste generation or of the original disposal. Second, under CERCLA and applicable state statutes, the current owner or operator of any real property, not just waste disposal sites, may incur liability for hazardous substances located on the property or that have migrated to adjoining properties even though such wastes were deposited by a prior owner, operator or tenant. A former owner or operator of real property may incur liability for hazardous substances located on the property even though such wastes were deposited by another owner, operator or tenant; and a former owner or operator of real property may incur liability after the sale of the property for hazardous waste disposed on the property during the time that it owned, operated or leased the property. The third general area is that associated with the accidental release of hazardous materials or substances during a transportation incident, such as a derailment. Federal, state and local laws and regulations may impose (again, without regard to fault), requirements for clean-up of contaminated soils and surface or groundwater resulting from a derailment; and there may also be long-term monitoring requirements to evaluate the impacts on the environment and natural resources. In addition, adjacent land owners or other third parties sometimes initiate toxic tort litigation against the type of sites described above.

State and local agencies, particularly in California where the Company has extensive operations, have become increasingly active in the environmental area. The increased regulation by multiple agencies can be expected to increase the Company's future environmental costs.

The Company has made and will continue to make substantial expenditures relating to the assessment and remediation of environmental conditions on its properties, including properties held for sale. During 1994 and 1993 the Company spent approximately $21.6 million and $18.3 million, respectively, relating to the assessment and remediation of environmental conditions of operating properties and non-operating properties not held for sale, excluding the effects of the 1991 derailment at Dunsmuir, California. In 1994 and 1993, the Company also incurred approximately $13.2 million and $12.4 million, respectively, for environmental matters relating to properties held for sale. Costs associated with environmental remediation of properties held for sale may be deferred to the extent such costs, together with estimated future costs and the existing cost basis of the property do not exceed, in the aggregate, the amount expected to be realized upon sale.

The Company owns or previously owned two properties and has a partial interest in four properties that are on the national priorities list ("NPL") under CERCLA, the federal "superfund" statute. The Company has been informed that it is

or may be a PRP, together with multiple other PRPs, with respect to the remediation of eight other properties on such list. Certain other Company properties are included on lists of sites maintained under similar state laws. Inclusion of a site on such lists would allow federal or state "superfund" monies to be spent on clean-up at the sites if PRPs do not perform the cleanup. The law governing "superfund" sites provides that PRPs may be jointly and severally liable for the total costs of remediation. In some instances, liability may be allocated through litigation or negotiation among the PRPs based on equitable factors, including volume contribution. Of its properties, including the NPL and PRP properties described above, the Company has only three sites that individually involved future cost estimates for environmental matters as of December 31, 1994 in excess of $5 million. The following is a brief description of these properties, two of which (Roseville and Crystal Chemical) are operating properties and the third (Sacramento) is a non-operating property held for sale.

*Roseville Rail Yard--Roseville, CA.* In 1985, the EPA ordered SPT to furnish a plan for investigation of hazardous wastes at its 640-acre Roseville, California locomotive facility and railroad yard which was contaminated through past cleaning operations. The examination of one part of the yard has been completed and the selected remedial alternative is in the construction stage. Total costs incurred to conduct the investigation through December 31, 1994 were approximately $4.0 million. The Company estimates the cost of the selected remediation will range between $2.5 million and $4.5 million. Based on the Company's analysis of the currently available information, including the proposed partial remedial action, the total amount accrued for this site at December 31, 1994 was $9.0 million. The investigation of the remainder of the yard is in progress and may identify additional remediation costs that may be incurred in the future.

*Crystal Chemical Company Site--Houston, TX.* SPT is a prior landowner at a site near Houston, Texas that was operated as a herbicide manufacturing plant by Crystal Chemical Company ("Crystal"), a former lessee of SPT. In 1981, Crystal filed for bankruptcy. Voluntary Purchasing Groups, Inc. ("VPG") had also been involved with the site in connection with Crystal's operations. In late 1991, SPT and VPG jointly settled and SPT subsequently paid a $3 million response cost claim to settle a case the federal government filed in 1988 against SPT, VPG and others. In settlement of a cross-claim by SPT, VPG agreed to pay SPT $4.5 million to cover VPG's share of the settlement and the estimated remediation cost. As of December 31, 1994, SPT had received $2.5 million of the settlement amount and will receive the remaining $2 million by 1995 through payments from a collateralized escrow account. SPT is complying with a 1992 EPA order for soil and ground water remediation at the site. Combined EPA estimates for remediation totaled approximately $10.6 million. Based upon the EPA estimate, payments to date and VPG's settlement payment, at December 31, 1994 the Company had accrued $5.0 million in its environmental reserves for Crystal.

*SPT Locomotive Works--Sacramento, CA.* In June 1988, SPT agreed with a California regulatory agency to investigate the 240-acre Sacramento railroad facility. Soils at the site are contaminated and a contaminated groundwater plume has migrated off site. The investigation and remedial actions that may be required will take several years to complete. SPT is incurring on-going characterization and remediation costs for soil and groundwater remediation at certain of eleven areas on the site. For 1994, 1993 and 1992, these costs were approximately $10.4 million, $10.0 million and $7.0 million respectively. The Sacramento property is included in property held for sale and estimated future environmental costs for expected investigation and remediation at Sacramento were approximately $12.0 million. This amount is not included in the Company's environmental reserves because the property is held for sale and future environmental costs are expected to be realized upon sale of the property, as discussed in the fourth paragraph of this section. The amount will be reviewed as on-going investigations are completed and future remediation decisions are made. Additional remediation costs may result.

The Company's total costs for the three sites described above and its other environmental matters cannot be predicted with certainty; however, the Company has accrued reserves for environmental matters with respect to operating and non-operating properties not held for sale, as well as certain properties previously sold, based on the costs estimated to be incurred when such estimated amounts (or at least a minimum amount) can be reasonably determined based on information available. At December 31, 1994 and 1993, the Company had accrued reserves for environmental contingencies of $65.2 million and $62.3 million, respectively. Based on the Company's reserves, management does not believe that disposition of environmental matters known to the Company will have a material adverse effect on the Company's financial condition. However, there can be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future.

## ITEM 3. LEGAL PROCEEDINGS

*Union Pacific-Missouri Pacific Trackage Rights Compensation.* As a condition to its approval of the consolidation of Union Pacific, Missouri Pacific Railroad Company ("MP") and Western Pacific Railroad Company in 1982, the ICC awarded SSW trackage rights to operate over the MP lines between Kansas City and St. Louis. The ICC's initial decision did not fix the compensation SSW would pay for the trackage rights, which commenced in January 1983. After a series of hearings, the ICC set forth new principles to govern the computation of charges. Union Pacific has asserted a claim for additional amounts due against the Company of approximately $63 million (including interest) as of December 31, 1994, and filed a collection action in Federal District Court. In early 1995, the court issued an order finding that the Company owes Union Pacific the amount of $60.99 million as of January 31, 1995 plus additional accrued amounts occurring since that date, but allowing the Company to pursue a counterclaim for losses due to alleged discrimination against the Company's trains using the joint facility. The Company and Union Pacific have agreed in principle concerning settlement of the litigation. Whether or not final agreement to settle on the proposed terms is reached, the Company's payment to Union Pacific will be substantial. Management has made adequate provision for this matter in current liabilities in its financial statements.

*1991 Dunsmuir Derailment.* In July 1991, a derailment near Dunsmuir, California resulted in the escape from a tank car of metam sodium (a soil fumigant) into the Sacramento River. The derailment allegedly resulted in environmental damage, particularly the loss of fish, plants and other organisms in approximately 38 miles of the Sacramento River.

Approximately 46 lawsuits were filed against SPT by private plaintiffs alleging costs and damages for personal injuries, property damage, business losses and other losses. Most of these were consolidated, and classes consisting of approximately 3,350 claimants were certified. In June 1993, SPT and the class action plaintiffs agreed to settle and that settlement was given final approval by the court in January 1995. Through the settlement, the class action plaintiffs will receive a total of $14 million from SPT and the other defendants. Thirteen class action plaintiffs filed appeals from the preliminary approval of the settlement. Those appeals have not been dismissed. The only remaining civil cases on the derailment involve four personal injury-only claims and one business loss-only claim brought by plaintiffs who opted out of the class action.

In addition, the State of California and the United States each filed suits against SPT and others in the United States District Court in Sacramento, California. These cases sought natural resource damages, costs, injunctive relief and civil penalties. Litigation instituted earlier by Southern Pacific in the U. S. District Court for Los Angeles was transferred to the Sacramento federal court. Several angling advocacy groups and an environmental group intervened in the Sacramento federal action. All of the parties except the intervenors reached a settlement which is incorporated in two consent decrees lodged with the court in March 1994. The consent decree involving SPT provides that the Company will pay $30 million and the other defendants collectively will pay $5 million in settlement of all government claims. The settlement was subject to the conditions that the intervenors' claims be dismissed with prejudice and that the court approved the consent decrees after public comment. On December 19, 1994, the court ruled that it would grant SPT's motion to dismiss the intervenors' claims and indicated it would approve the two consent decrees upon completion of the public comment process. On February 3, 1995, the governments responded to public comments and requested entry of the consent decrees. The intervenors prematurely filed notices of appeal from the decision to dismiss their claims.

On March 14, 1995, the court entered two orders. In one the court found that the consent decrees complied with law, were fair, reasonable and made in good faith, and entered them as final orders as of that date. By the other order, the court clarified that its December 19, 1994 decision was not a final order of dismissal of the intervenor's claims, but that its March 14, 1995 actions did constitute final dismissal. The entry of the decrees and dismissal of the intervenor's claims terminates the litigation except for any properly brought appeals.

The California Public Utilities Commission ("PUC") also instituted an investigation into causes of the derailment. The PUC recently issued a decision imposing fines of $488,000 and certain operational requirements. SPT is challenging the decision in all respects.

SPT is insured against most types of damages and related costs involved in the Dunsmuir derailment to the extent they exceed $10.0 million. As of December 31, 1994, SPT had paid approximately $46.8 million related to the Dunsmuir derailment, of which $12 million was charged to expense primarily to cover the $10 million deductible. The balance has been

or is in the process of being collected from insurance carriers. As of December 31, 1994, approximately $31.9 million has been recovered by SPT from insurers. SPT expects to recover substantially all additional damages and costs under its insurance policies (including amounts payable pursuant to the settlement of private suits described above, as well as amounts payable pursuant to settlement of the federal court action described above, except for $750,000 which constitutes penalties and the potential penalty of $488,000 under the PUC decision). As a result, disposition of these matters is not expected to have a material adverse effect on the Company's financial condition.

*Houston-Metro.* In 1992, SPT received $45 million from the sale of property to the Metropolitan Transit Authority (Metro) in Houston, Texas. SPT believes that the contract of sale in 1992 also requires Metro to acquire an additional $30 million of SPT right-of-way properties. Metro, on the other hand, has indicated that it believes an adjustment or credit should be made with respect to the purchase price for the property it already purchased. Negotiations between SPT and Metro to resolve the matter have been unsuccessful. On March 29, 1994, SPT filed a lawsuit in the U.S. District Court in Houston, Texas seeking damages and/or specific performance in connection with Metro's decision not to purchase the additional $30 million of SPT right-of-way properties and further seeking a declaratory judgment that SPT is not required to refund any amounts to Metro under the 1992 sales contract. On the same day, Metro filed a lawsuit in the U.S. District Court in Houston, Texas seeking a refund from SPT of $19.7 million under the 1992 sales contact between SPT and Metro.

*General.* SPT is involved in certain income tax cases relating to prior periods, but pursuant to an agreement with SPT's former parent as part of the Company's acquisition of SPT, the former parent has assumed the liability for any adjustments to taxes due or reportable on or before October 13, 1988, the date of acquisition. Accordingly, the Consolidated Financial Statements of the Company do not make provision for any taxes and interest of SPT that may have been due or reportable relating to periods ending on or before October 13, 1988.

The Internal Revenue Service's audit of RGH's tax returns for 1983 and the period ending October 31, 1984, led to the issuance of a notice of deficiency in October 1992. The Notice has been petitioned to the U.S. Tax Court. The Company is unable to predict when this case will be resolved; however, management believes adequate reserves have been provided to cover any anticipated assessment.

RGH's taxable periods from November 1984 through October 13, 1988 are currently under audit as part of an audit of TAC. RGH was included in TAC's consolidated returns during that period. The audit has led to the issuance of a Notice of Deficiency for RGH's 1979 and 1982 years as a result of the disallowance of NOL and investment tax credit carrybacks from the tax period ending July 31, 1985 through July 31, 1987. This notice has also been petitioned to the United States Tax Court. The Company is unable to predict when this case will be resolved. The Company's consolidated federal income tax returns are currently being examined for the period December 31, 1991 through December 31, 1993. Management believes adequate provision has been made for any potential adverse result from these audits.

Although the Company has purchased insurance, the Company has retained certain risks (consisting principally of a substantial deductible per occurrence) with respect to losses for third-party liability and property claims. In addition, various claims, lawsuits and contingent liabilities are pending against the Company. Management has made provisions for these matters which it believes to be adequate. As a result, the ultimate disposition of these matters is not expected to have any material adverse effect on the Company's financial condition.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1994.

## EXECUTIVE OFFICERS OF THE REGISTRANT AND RAIL SUBSIDIARIES

The following table sets forth certain information concerning the executive officers of the Company. Additional information about these individuals follows the next table that provides information about other management individuals at the Company's operating subsidiary level.

| Name | Age | Position |
|---|---|---|
| Philip F. Anschutz | 55 | Chairman of the Company |
| Jerry R. Davis | 56 | President and Chief Executive Officer of the Company and Chairman and Chief Executive Officer of the Company's rail subsidiaries |
| Robert F. Starzel | 54 | Vice Chairman of the Company and its rail subsidiaries |
| Donald C. Orris | 53 | Executive Vice President - Operations and Distribution Services of the Company and President and Chief Operating Officer of the Company's rail subsidiaries |
| Cannon Y. Harvey | 54 | Executive Vice President - Finance and Law and General Counsel of the Company and its rail subsidiaries |
| Thomas J. Matthews | 54 | Senior Vice President - Administration of the Company and its rail subsidiaries |
| Lawrence C. Yarberry | 52 | Vice President-Finance of the Company and Director and Vice President-Finance of its rail subsidiaries |
| Brian C. Kane | 39 | Controller of the Company and its rail subsidiaries |
| Lynn K. Ducken | 51 | Treasurer of the Company and its rail subsidiaries |
| Thomas F. O'Donnell | 52 | Secretary of the Company and its rail subsidiaries |

The executive officers of the Company are elected annually by and serve at the discretion of the Company's Board of Directors.

The following table sets forth certain information concerning the executive officers of the Company's rail subsidiaries who do not also hold positions at the Company. Each executive officer holds similar positions at all rail subsidiaries.

| Name | Age | Position |
|---|---|---|
| Michael D. Ongerth | 53 | Vice President-Strategic Development |
| Eugene P. Reilly | 49 | Vice President and Chief Engineer |
| Peter M. Ruotsi | 52 | Vice President-Intermodal |
| S. David Steel | 48 | Vice President-Real Estate Sales/Development |
| W. Kent Sterett | 47 | Vice President-Quality |
| M. E. Uremovich | 51 | Vice President-Marketing |
| Jeff L. Verhaal | 46 | Vice President and Chief Transportation Officer |

Mr. Anschutz has been a director of the Company since June 1988 and Chairman since October 1988. He is chairman of the Company's Executive Committee and Compensation Committee. He served as President and Chief Executive Officer of the Company from October 1988 until July 1993. He was a Director and Chairman of the Board of SPT from October 1988 to July 1993; a Director, Chairman, President and Chief Executive Officer of SPTCH from October 1988 to July 1993; a Director of D&RGW for more than five years until July 1993 and Chairman and Chief Executive Officer from November 1991 to July 1993; a Director of RGH for more than the past five years until July 1993 and Chairman, President and Chief Executive Officer from April 1992 to July 1993; and a Director, Chairman of the Board and President of TAC for more than the past five years.

Mr. Davis was elected President, Chief Executive Officer and a Director of the Company on February 22, 1995 and is a member of the Company's Executive Committee. At that time he also was elected Chairman and Chief Executive Officer of the Company's rail operating subsidiaries. Prior to joining the Company, Mr. Davis served from January 1992 to February 1995 as Executive Vice President and Chief Operating Officer of CSX Transportation, Inc. ("CSXT"). From July 1991 to January 1992, he was Executive Vice President-Operations of CSXT. Mr. Davis was President of CSX Rail Transportation, Inc. from July 1989 to July 1991.

Mr. Starzel has been a Director of the Company since October 1988 and Vice Chairman of the Company since May 1993 and is a member of the Company's Executive Committee. Mr. Starzel was a Vice President of the Company from June 1988 to May 1993. He has been a Director and Vice Chairman of SPT since October 1988, a Director of RGH for more than five years and Vice President since October 1988; a Director of D&RGW for more than five years and Vice Chairman since October 1988; and was a Director and Vice President of TAC for more than five years until December 1991 and Vice President of SPTCH from October 1988 until August 1993 when SPTCH was merged into the Company.

Mr. Orris has been Executive Vice President-Operations and Distribution Services of the Company and President and Chief Operating Officer of the Company's rail subsidiaries since February 1995. He has been a Director of SPT since May 1990. He was Executive Vice President-Distribution Services of SPT since October 1991, prior to which he was President of Distribution Services since May 1990. He has been a Director of D&RGW since November 1992 and was Executive Vice President-Distribution Services from May 1990 to February 1995. He was formerly employed by American President Companies from 1977 to 1990 and last held the position of President and Chief Executive Officer of American President Domestic.

Mr. Harvey has been Executive Vice President-Finance and Law and General Counsel since February 1995, prior to which he was Senior Vice President-Finance and Law and General Counsel since September 1993. He was first employed by the Company as Vice President-Law and General Counsel in May 1993 and served in that capacity until September 1993. Prior to June 1993 while a member of the law firm of Holme Roberts & Owen, Mr. Harvey served as General Counsel of the Company and RGH (since 1989), Vice President and General Counsel of SPT (since 1989) and of D&RGW (since 1991); he was General Counsel of SPTCH from 1989 until August 1993 when SPTCH was merged into the Company. He was a partner in the law firm of Holme Roberts & Owen until June 1993 and for more than five years prior thereto.

Mr. Matthews has been Senior Vice President-Administration of the Company since February 1995. He has been a Director of SPT and D&RGW since January 1993 and Senior Vice President-Administration at SPT and D&RGW since February 1995 and Vice President-Administration from November 1991 to February 1995, prior to which he was Vice President-Human Resources since January 1991. He was Senior Vice President-Human Resources of Continental Airlines Holding, Inc. from July 1987 to December 1990 and was Executive Vice President and Chief Financial Officer of BN from November 1983 to June 1987.

Mr. Yarberry has been Vice President-Finance of the Company since April 1990. He was Treasurer of the Company from April 1990 to December 1993. Mr. Yarberry was a Director of the Company from April 1990 to August 1993. He has been a Director and Vice President-Finance of SPT since April 1990, prior to which he was Controller for more than five years; a Director of RGH since April 1990 and Vice President-Finance since April 1992; and a Director of D&RGW since April 1990 and Vice President-Finance since November 1991. Mr. Yarberry was a Director, Vice President-Finance and

Treasurer of SPTCH from April 1990 until August 1993 when SPTCH was merged into the Company; and was Acting Treasurer of SPT, RGH and D&RGW from September 1993 to December 1993.

Mr. Kane has been Controller of the Company since June 1988. He has been Controller of SPT since April 1990, prior to which he was Assistant Controller since December since 1989. He has been Controller of RGH for more than five years and of D&RGW since November 1991. He was Controller of SPTCH for more than five years prior to August 1993 when SPTCH was merged into the Company.

Ms. Ducken has been Treasurer of the Company and its rail subsidiaries since December 1993. Prior to joining the Company, Ms. Ducken was Vice President-Finance of U.S. Fleet Services from September 1992 to December 1993 and was at U.S. Leasing International, Inc. from 1988 to September 1992 where she last held the position of Vice President and Treasurer. Ms. Ducken was Senior Vice President and Chief Financial Officer of U.S. Leasing Corporation from 1985 to 1988.

Mr. O'Donnell has been Secretary of the Company since December 1988. He has been Secretary of SPT since August 1988, prior to which he was Assistant Secretary for more than five years. He has been Secretary of RGH and D&RGW since December 1988 and was Secretary of SPTCH from December 1988 until August 1993 when SPTCH was merged into the Company.

Mr. Ongerth has been Vice President-Strategic Development of SPT and D&RGW since June 1992. He was Assistant Vice President-Administrative Services from January 1990 to June 1992 and Assistant Vice President-Operations from May 1989 to January 1990.

Mr. Reilly has been Vice President and Chief Engineer of SPT and D&RGW since September 1993. Prior to that time he was Assistant Chief Engineer of SPT since December 1986.

Mr. Ruotsi has been Vice President-Intermodal of SPT and D&RGW since January 1995. He was Vice President-Sales of SPT and D&RGW from October 1991 to December 1994, prior to which he was Executive Vice President-Sales since September 1990. He was Vice President-Quality of American President Companies from 1988 to 1990.

Mr. Steel has been Vice President-Real Estate Sales/Development of SPT since July 1989 and was Vice President for Real Estate Development from January 1989 to July 1989, prior to which he was Vice President-Real Estate Sales since October 1988. He has been Vice President-Real Estate Sales/Development of D&RGW since July 1989, prior to which he was Vice President for Real Estate Development since March 1989. Mr. Steel was Manager of Real Estate Development with TAC from 1983 to 1988. Mr. Steel was Vice President-Real Estate Sales/Development of SPTCH from July 1989 until August 1993 when SPTCH was merged into the Company, prior to which he was Vice President-Real Estate since October 1988.

Mr. Starett has been Vice President-Quality of SPT and D&RGW since November 1991 prior to which he was Executive Vice President-Distribution Services-Quality since October 1990. He was Assistant Vice President-Quality of the Union Pacific Railroad Company from 1989 to 1990.

Mr. Uremovich has been Vice President-Marketing of SPT and D&RGW since July 1991. He was a partner of The Kingsley Group from May 1990 to July 1991, prior to which he was Vice President-Marketing of American President Companies since 1982.

Mr. Verhaal has been Vice President and Chief Transportation Officer of SPT and D&RGW since February 1995. He was General Manager of the Southern Region of CSX Transportation Co. from February 1992 to February 1995, prior to which he was Assistant to Vice President and Chief Transportation Officer since January 1991. He was General Director of the Union Pacific Railroad Company from December 1989 to December 1990.

## PART II

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

Information as to the markets in which the Company's Common Stock is traded, the quarterly high and low prices for such stock and the approximate number of stockholders of record at February 28, 1995 is set forth under Supplemental Information at page 42 of the 1994 Annual Report to Stockholders (the "Annual Report") and is incorporated herein by reference.

The Board of Directors of the Company currently intends to retain available funds in the Company's business and does not expect the Company to pay cash dividends on the Common Stock. In addition, because the Company is a holding company with no material assets other than the stock of its subsidiaries, its ability to pay dividends or make other distributions on the Common Stock is dependent on the earnings and cash flow of its subsidiaries. Certain indebtedness of the Company's subsidiaries also restrict the ability of the Company's subsidiaries to pay dividends or make distributions to the Company or to the parent company of such subsidiary, which may restrict the ultimate ability of the Company to pay cash dividends on the Common Stock. Likewise, the indenture for the Senior Notes may restrict the ability of the Company to pay dividends on the Common Stock.

### ITEM 6. SELECTED FINANCIAL DATA

Information for each of the last five years regarding the Company's operating revenues, income from continuing operations (including per share amounts), total assets, total long-term debt and cash dividends declared per common share is set forth under Selected Consolidated Financial and Operating Data at pages 14 and 15 of the Annual Report and is incorporated herein by reference.

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

Information as to the Company's financial condition, changes in financial condition and results of operation is set forth under Financial Review at pages 16 through 24 of the Annual Report and is incorporated herein by reference.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements are presented at pages 26 through 41 of the Annual Report. Selected quarterly financial data are set forth under Quarterly Data (Unaudited) at page 41 of the Annual Report. The Company's Independent Auditors' Report is set forth at page 25 of the Annual Report. The material described in the last three preceding sentences is incorporated herein by reference. The Financial Statement Schedules are included therein.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH AUDITORS 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 the Company, terms of office, periods of service, business experience during the past five years and other directorships held by each director or person nominated to become a director of the Company is set forth under Election of Directors in the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A (the "Proxy Statement") and is incorporated herein by reference.

(b) Information concerning the executive officers of the Company and its subsidiaries is presented in Part I of this Report under Executive Officers of the Registrant and Rail Subsidiaries.

### ITEM 11. EXECUTIVE COMPENSATION

Information concerning compensation received by the Company's executive officers and directors is presented under Executive Compensation, Employment Agreements, Equity Incentive Plan and Benefit Plans in 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 the Company's equity securities beneficially owned as of March 15, 1995 by each of its directors and nominees for director, its five most highly compensated executive officers and its directors and executive officers as a group is set forth under Beneficial Ownership of Stock in the Proxy Statement and is incorporated herein by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions is set forth under Compensation Committee Interlocks and Insider Participation, Beneficial Ownership of Stock and Certain Relationships and Related Transactions in the Proxy Statement and is incorporated herein by reference.

## PART IV

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

A. Documents filed as part of this report:

1. **Financial statements:**

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

Report of Independent Auditors
Consolidated Balance Sheets, December 31, 1994 and 1993
Consolidated Statements of Operations for the Years Ended December 31, 1994, 1993 and 1992
Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 1994, 1993 and 1992
Consolidated Statements of Cash Flows for the Years Ended December 31, 1994, 1993 and 1992
Notes to Consolidated Financial Statements, December 31, 1994

The foregoing are incorporated herein by reference from pages 25 through 41 of the Annual Report.

2. **Financial statements schedules:**

Report of Independent Auditors

VIII. Valuation and Qualifying Accounts and Reserves

All other schedules are omitted because they are not applicable or because the required information is shown in the financial statements or the notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

Financial statements and summarized financial information of companies accounted for by the equity method have been omitted because, considered in the aggregate or individually, they would not constitute a significant subsidiary.

3. **Exhibits:**

| Document Number | Document Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (previously filed as an exhibit to the Company's Registration Statement on Form S-1 which was initially filed on May 12, 1993 (File No. 33-62608), and incorporated by this reference). |
| 3.2 | By-laws of the Company (previously filed as an exhibit to the Company's Registration Statement on Form S-1 which was initially filed on May 12, 1993 (File No. 33-62608) and incorporated by this reference). |

| Document Number | Document Description |
|---|---|

4.1 Specimen of common stock certificate of the Company (previously filed as an exhibit to the Company's Registration Statement on Form S-1 which was initially filed on May 12, 1993 (File No. 33-62608) and incorporated by this reference).

4.2 Indenture relating to the Company's 9-3/8% Senior Notes due 2005, dated August 15, 1993 (previously as an exhibit to the Company's Registration Statement on Form S-1 which was initially filed on May 14, 1993 (File No. 33-62756) and incorporated by this reference).

4.3 Debt Instruments: The registrant is not filing any instruments evidencing indebtedness other than Exhibit 4.2 because the total amount of securities authorized under any single such instrument does not exceed 10% of the Company's total assets. The registrant agrees to provide the Commission upon request copies of instruments defining the rights of holders of long-term debt of the registrant and its subsidiaries for which consolidated financial statements are required to be filed with the Commission.

10.1 Receivables Purchase Agreement between Southern Pacific Transportation Company and Rio Grande Receivables, Inc. dated as of November 1, 1989 (previously filed as Exhibit 10.1 to SPT's Annual Report on Form 10-K for the year ended December 31, 1989 and incorporated by this reference).

10.2 Receivables Purchase Agreement between St. Louis Southwestern Railway Company and Rio Grande Receivables, Inc. dated as of November 1, 1989 (previously filed as Exhibit 10.2 to SPT's Annual Report on Form 10-K for the year ended December 31, 1989 and incorporated by this reference).

10.3 Receivable Purchase Agreement between The Denver and Rio Grande Western Railroad Company and Rio Grande Receivables, Inc. dated as of November 1, 1989.

10.4 Southern Pacific Rail Corporation Employment Agreement with E. L. Moyers dated July 16, 1993 (previously filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 that was initially filed on May 12, 1993 (File No. 33-62608) and incorporated by this reference); Southern Pacific Rail Corporation Agreement dated March 3, 1994 (accepted March 7, 1994) with E. L. Moyers (previously filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated by this reference); and Agreement with E. L. Moyers dated February 14, 1995.*

10.5 Form of Registration Rights Agreement (previously filed as Exhibit 10.19 to the Company's Registration Statement on Form S-1 that was initially filed on May 12, 1993 (File No. 33-62608) and incorporated by this reference).

10.6 Form of Corporate Matters Agreement (previously filed as Exhibit 10.20 to the Company's Registration Statement on Form S-1 that was initially filed on May 12, 1993 (File No. 33-62608) and incorporated by this reference).

10.7 Form of 1993 Equity Incentive Plan (previously filed as Exhibit 10.21 to the Company's Registration Statement on Form S-1 that was initially filed on May 12, 1993 (File No. 33-62608) and incorporated by this reference).

10.8 Employment Agreement with Cannon Y. Harvey dated June 1, 1993 (previously filed as Exhibit 10.15 to the Company's Registration Statement on Form S-1 that was initially filed on December 17, 1993 (File No. 33-73116) and incorporated by this reference); and Amendment to such Agreement dated December 1, 1994 (accepted December 7, 1994).*

10.9 Employment Agreement with Thomas J. Matthews dated August 1, 1993 (Previously filed as Exhibit 10.16 to the Company's Registration Statement on Form S-1 that was initially filed on December 17, 1993 (File No. 33-73116) and incorporated by this reference); and Amendment to such Agreement dated January 1, 1995.*

| Document Number | Document Description |
|---|---|
| 10.10 | Employment Agreement with Robert F. Starzel dated October 26, 1994.* |
| 10.11 | Employment Agreement with Donald C. Orris dated February 21, 1995.* |
| 10.12 | Employment Agreement with Jerry R. Davis dated February 20, 1995.* |
| 11.1 | Statement re computation of per share earnings--historical. |
| 13. | The Company's Annual Report to Stockholders for the Year Ended December 31, 1994. |
| 21.1 | Subsidiaries of the Company |
| 23.1 | Consent of Independent Public Accountants - KPMG Peat Marwick LLP. |

The Registrant will furnish to a requesting security holder any Exhibit requested upon payment of the Registrant's reasonable copying charges and expenses in furnishing the Exhibit.

* Management contact or compensatory plan, contract or arrangement required to be filed as an Exhibit pursuant to Item 14(c).

B. Reports on Form 8-K.

The Company did not file any reports on Form 8-K during the three months ended December 31, 1994.

C. Other Exhibits:

No exhibits in addition to those previously filed or listed in Item 14(a)(3) are filed herein.

D. Other Financial Statement Schedules:

No additional financial statement schedules are required.

## 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.**

SOUTHERN PACIFIC RAIL CORPORATION

By: /s/ B. C. Kane
B. C. Kane
Controller
(Principal Accounting Officer)
Date: March 23, 1995

**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.**

Date: March 23, 1995

By: /s/ Philip F. Anschutz
Philip F. Anschutz
*Chairman and Director*

Date: March 23, 1995

By: /s/ Jerry R. Davis
Jerry R. Davis
*President, Chief Executive Officer and Director (Principal Executive Officer)*

Date: March 23, 1995

By: /s/ Robert F. Starzel
Robert F. Starzel
*Vice Chairman and Director*

Date: March 23, 1995

By: /s/ Jordan L. Haines
Jordan L. Haines
*Director*

Date: March 23, 1995

By: /s/ Douglas L. Polson
Douglas L. Polson
*Director*

Date: March 23,1995

By: /s/ Frank V. Sica
Frank V. Sica
*Director*

Date: March 23, 1995

By: /s/ Lawrence C. Yarberry
Lawrence C. Yarberry
*Vice President—Finance*
*(Principal Financial Officer)*

## Independent Auditors' Report

The Board of Directors and Stockholders
Southern Pacific Rail Corporation:

Under date of February 24, 1995, we reported on the consolidated balance sheets of Southern Pacific Rail Corporation and Subsidiary Companies as of December 31, 1994 and 1993, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 1994, as contained in the 1994 Annual Report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1994. In connection with our audit of the aforementioned consolidated financial statements, we also audited the related financial statement schedule as listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for income taxes and post-retirement benefits other than pensions effective January 1, 1993.

KPMG Peat Marwick LLP

KPMG PEAT MARWICK LLP

San Francisco, California
February 24, 1995

SOUTHERN PACIFIC RAIL CORPORATION
AND SUBSIDIARY COMPANIES

## SCHEDULE VIII VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

| | Balance at Beginning of Year | Charged to Expense | Deductions | Balance at End of Year |
|---|---|---|---|---|
| | | *(in millions)* | | |
| **Year Ended December 31, 1994** | | | | |
| Casualty and other claims | $448.4 | $146.8 | $102.8 | $492.4 |
| Post retirement and post employment benefit obligation | 169.4 | 23.2 | 17.9 | 174.7 |
| Employee separation and relocation and other | 60.3 | - | 48.8 | 11.5 |
| Total | $678.1 | $170.0 | $169.5 | $678.6 |
| **Year Ended December 31, 1993** | | | | |
| Casualty and other claims | $467.6 | $157.7 | $176.9 | $448.4 |
| Post-retirement benefit obligation | - | 181.9 | 12.5 | 169.4 |
| Employee separation and relocation and other | 113.2 | 2.5 | 55.4 | 60.3 |
| Total | $580.8 | $142.1 | $244.8 | $678.1 |
| **Year Ended December 31, 1992** | | | | |
| Casualty and other claims | $481.0 | $147.7 | $161.1 | $467.6 |
| Employee separation and relocation and other | 195.9 | - | 82.7 | 113.2 |
| Total | $676.9 | $147.7 | $243.8 | $580.8 |

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
# WASHINGTON, D.C. 20549
# FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-6146

## SOUTHERN PACIFIC TRANSPORTATION COMPANY

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 94-6001323W |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| Southern Pacific Building<br>One Market Plaza<br>San Francisco, California | 94105 |
| (Address of principal executive offices) | (Zip Code) |
| | (415) 541-1000 |
| | (Registrant's telephone number, including area code) |

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Southern Pacific Transportation Company<br>First and Refunding Mortgage 8.20% Bonds,<br>Series B, Due December 1, 2001 | New York Stock Exchange |

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

None

(Title of Class)

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, and (2) has been subject to such filing requirements for the past 90 days Yes X 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. X

As of March 15, 1995, none of the registrant's Common Stock was held by non-affiliates.

The number of shares outstanding of the registrant's Common Stock as of March 15, 1995 was 1,000.

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION J(1)(a) AND (B) OF FORM 10-K AND IS THEREFORE FILING THIS REPORT WITH THE REDUCED DISCLOSURE FORMAT.

Because the Company is filing this Annual Report under the reduced disclosure format provided by General Instruction J(2) of Form 10-K, certain items have been omitted in their entirety, or in part, as follows:

Omitted in entirety:

**Item 4. Submission of Matters to a Vote of Security Holders.**
**Item 6. Selected Financial Data.**
**Item 10. Directors and Executive Officers of the Registrant.**
**Item 11. Executive Compensation.**
**Item 12. Security Ownership of Certain Beneficial Owners and Management.**
**Item 13. Certain Relationships and Related Transactions.**

Omitted in part:

**Item 1. Business.**
**Item 2. Properties.**
**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

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Southern Pacific Transportation Company ("SPT" or the "Company") is a wholly-owned subsidiary of Southern Pacific Rail Corporation ("SPRC"). Unless the content otherwise requires, references herein to the Company include SPT and it subsidiaries, including St. Louis Southwestern Railway Company ("SSW"). The Denver and Rio Grande Western Railroad Company ("D&RGW") and SPCSL CORP. ("SPCSL"), and references to SPRC include SPRC and its subsidiaries, including SPT and its subsidiaries and Rio Grande Holding ("RGH") and its subsidiaries. References herein to SPRC prior to August 18, 1993 include SPTC Holding, Inc. ("SPTCH"), a wholly-owned subsidiary of SPRC and the parent of SPT that was merged into SPRC on such date and reference herein to RGH prior to October 1, 1994 include D&RGW, which became a subsidiary of SPT on such date. All financial and statistical amounts, including the consolidated financial statements and related footnotes, have been restated for all periods presented to include the accounts and data of D&RGW.

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## PART I

## ITEMS 1. AND 2. BUSINESS AND PROPERTIES

### General

The Company, through the integrated network of its principal subsidiaries, transports freight over approximately 14,500 miles of first main track throughout the western United States. The Company operates in 15 states over five main routes. The Company serves most west coast ports and large population centers west of the Mississippi and connects with eastern railroads at Chicago, St. Louis, Kansas City, Memphis and New Orleans. The Company's rail lines reach the principal Gulf ports south from Chicago and east from the Los Angeles basin. It interchanges with Mexican railroads at six gateways into Mexico.

The principal commodities hauled in the Company's carload operations are chemicals and petroleum products, food and agricultural products, forest products (including paper, paper products and lumber) and coal. Intermodal container and trailer operations continue to be the Company's largest single traffic category. In 1994, the largest five shippers accounted for less than 17 % of the Company's gross freight revenues, with no shipper providing more than 6 % of such revenue.

The Company was acquired by SPRC in October 1988 from Santa Fe Pacific Corporation ("Santa Fe"). In 1989 and 1990, the Company acquired access to Chicago from St. Louis and Kansas City, respectively, and in 1994, the stock of D&RGW was contributed to the Company such that all rail operations of SPRC are included in the Company. All amounts have been restated to reflect the combined results of the companies for all periods presented. For the five years preceding its acquisition by SPRC, SPT had been held in trust pending the decision of the Interstate Commerce Commission (the "ICC") that denied Santa Fe's requested merger with SPT. During this period, SPT fell significantly behind other Class I railroads that were then consolidating, streamlining and strengthening their railroads.

In addition to its rail business, the Company historically has received substantial cash flow from "traditional" real estate sales and leasing activities. More recently, transit corridor sales have become a dominant component of the Company's asset sales program, with the Company usually retaining operating rights over these corridors to continue freight rail service to its customers.

### Capital and Debt Transactions

In August 1993 and March 1994 SPRC closed the offering and sale of 30,783,750 shares and 25,000,000 shares of common stock, respectively. In connection with these offerings, the Company issued 200 shares of common stock in 1993 and 150 shares of common stock in 1994 for consideration of $445.5 million and $294.4 million from SPRC, respectively. Proceeds from these transactions were used to repay debt, purchase equipment operated pursuant to operating leases and for general corporate purposes.

In 1993 and 1994, D&RGW paid dividends of $46.7 million and $53.8 million to RGH, respectively.

### Railroad Operations

The following table sets forth certain freight and operating statistics relating to the Company's rail operations as restated to included D&RGW for the periods indicated. The operating ratios show consolidated operating expenses expressed as a percentage of consolidated operating revenues. The indicated increases in revenue ton-miles and carloads reflect an improving economy and implementation of the Company's business strategy. The decrease in revenue per ton-mile evidences the intense competitive pressures under which the Company operates, particularly those affecting its intermodal activities. The increase in revenue ton-miles per gallon of fuel primarily reflects the results of the Company's on-going program to rehabilitate and upgrade the quality of its locomotive fleet. The increase in labor productivity, as

measured by revenue ton-miles per employee, is primarily the result of Company programs to reduce the number of employees combined with increases in traffic volume.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Revenue ton-miles (billions) | 139.1 | 123.6 | 115.4 |
| Revenue per ton-mile (dollars) | $.021 | $.022 | $.023 |
| Total carloads (thousands)[1] | 2,274 | 2,078 | 1,995 |
| Average length of haul (miles) | 1,026 | 990 | 996 |
| Gallons of fuel (millions) | 436.0 | 408.9 | 390.3 |
| Average cost per gallon | $ .58 | $ .62 | $ .61 |
| Revenue ton-miles per gallon | 319 | 302 | 296 |
| Total employees (year end) | 18,010 | 18,982 | 22,793 |
| Revenue ton-miles per employee (thousands) | 7,456[2] | 5,845[2] | 5,063 |
| Operating ratio (%) | 92.6% | 100.7% | 100.3% |

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[1] Includes intermodal carloads with an assumed two containers per carload. Intermodal carloads hold from two to ten containers.

[2] Calculated based on average monthly employment for 1994 and 1993.

**Service Territory**

The Company's routes and service territory are described below.

*Central Corridor Route*. The Central Corridor Route links Northern California and the Pacific Northwest with Kansas, Missouri and Illinois, traversing the Rocky Mountain states via the D&RGW. The eastern end of this route reaches the rail gateway cities of Kansas City, St. Louis and Chicago. This route handles a diverse mix of traffic including eastbound forest products, perishables and processed foods, as well as significant volumes of finished automobiles and other manufactured goods. The bulk of the Company's low sulphur, high BTU coal traffic originates along this route in the mountainous territory of Colorado and Utah and moves east.

*Pacific Coast Route*. The north-south route connects the forest product resource base of the Pacific Northwest with the major consuming markets in California and Arizona.

*Sunset Route*. The Company's Sunset Route is a direct line from the Los Angeles Basin to Houston and other Gulf Coast ports, as well as the eastern rail gateways of Memphis and New Orleans. This route structure supports the Company's presence in carload origination of chemicals and plastics in the Gulf region.

*Golden State Route*. This route connects Southern California and Arizona with the industrial midwest and the rail gateways of Kansas City, St. Louis and Chicago. A wide range of products is handled in the corridor including intermodal, metals and ores, agricultural products and miscellaneous manufactured products.

*Mid-America Route*. The Mid-America Route (also known as the "Cotton Belt Route") links the petrochemical producing region along the Gulf of Mexico with industrial users and consuming markets in the midwest and northeast. The Cotton Belt serves the cities of Dallas/Ft. Worth, Shreveport, Memphis and St. Louis.

*Mexico*. The Company serves Mexico through interchanges with Mexican railroads at six gateways in California, Texas and Arizona.

**Traffic**

Set out below is a comparison of the Company's carload volumes and gross freight revenues (before contract allowances and adjustments) by commodity groups in 1994. A more detailed discussion of the traffic generated by each group follows the table.

| | Year Ended December 31, 1994 | | | |
|---|---|---|---|---|
| | Carloads | | Gross Freight Revenue | |
| | Number (Thousands) | % of Total | Dollars (Millions) | % of Total |
| Intermodal | 728.1 | 32.0% | $ 851.9 | 26.2% |
| Chemical and petroleum products | 342.7 | 15.1 | 614.9 | 18.9 |
| Coal | 303.2 | 13.3 | 299.3 | 9.2 |
| Food and agricultural products | 247.0 | 10.9 | 414.7 | 12.8 |
| Forest products | 226.2 | 9.9 | 432.0 | 13.3 |
| Metals and ores | 181.5 | 8.0 | 275.3 | 8.5 |
| Construction materials and minerals | 171.5 | 7.6 | 172.0 | 5.3 |
| Automotive | 73.4 | 3.2 | 188.7 | 5.8 |
| Total | 2,273.6 | 100.0% | $3,248.8 | 100.0% |

*Intermodal.* The intermodal freight business consists of hauling freight containers or truck trailers by a combination of water, rail and motor carriers, with rail carriers serving as the link between motor carriers and between ports and motor carriers. The Company's marketing efforts are focused on direct negotiations with major steamship lines for international container traffic and with marketing agents (primarily shipper agents and consolidators) and motor carriers for domestic container and trailer traffic.

The Company's intermodal revenues are derived in large part from goods produced in the Pacific Rim and shipped by rail from west coast ports to east coast markets. This traffic is carried on the Company's lines from its terminals at Oakland or Los Angeles/Long Beach to Chicago, St. Louis, New Orleans or Houston, or through connecting carriers, beyond to the U. S. eastern seaboard. Most of this traffic uses the Company's Intermodal Container Transfer Facility ("ICTF") in Southern California. In some cases, motor carriers and railroads have begun to jointly market intermodal service. The Company provides stack-train and trailer-on-flatcar service among its 27 intermodal facilities across the system.

*Chemical and Petroleum Products.* The Company transports a wide range of industrial, chemical and plastic products which constitute the primary commodity and product groups included in this traffic. Most of the traffic originates within Texas where the Company directly serves chemical and plastics plants. The Company's routes enable it to transport these products from Texas directly to end-user markets on the west coast and through interchanges at major gateways to end-user markets on the east coast. Shipper demand is closely tied to fluctuations in end-user demand and also is sensitive to the availability of safe, predictable transportation service.

*Coal.* The Company serves important sources of low-sulfur, high BTU coal in Colorado and Utah, which represents a growing share of the Company's commodity mix. The traffic is subject to intense competition from other coal sources, particularly the Powder River Basin in Wyoming and the Illinois Basin.

*Food and Agricultural Products.* Grain and grain products constitute the primary commodity groups included in this traffic. The Company is a major transporter of grain products to Mexico. Shipper demand is affected by competition among sources of grain and grain products as well as price fluctuations in international markets for key commodities. Other food and consumer goods included in this traffic are shipments primarily from sources in California to consumer markets in the eastern part of the U. S.

*Forest Products.* This traffic includes lumber stock, plywood and various paper products. Most of the traffic originates in Oregon and Northern California with destinations throughout the U.S. However, certain product sources in

the Pacific Northwest have been adversely affected by environmental concerns. In response, the Company is pursuing alternate sources in Canada and the Southern U.S. to increase volumes. The transportation market for lumber is affected by housing starts and remodeling activity, while the transportation market for paper products is driven by end-user demand for packaging and newsprint.

*Metals and Ores.* Metals and ores traffic includes both ferrous and non-ferrous metals and is concentrated on the steel mills of the west and shipments from copper mines and smelters in the southwest. These markets are sensitive to demand for construction and pipeline projects along with demand for industrial production and consumer goods with substantial metals components. The markets also are affected by commodity prices in international markets and subject to the substitution of imported metals.

*Other.* The traffic generated by the business development groups discussed above amounted to approximately 88.9% of the Company's gross freight revenues for 1994. Other commodity and product groups included in the Company's traffic mix include automobiles, automotive parts, construction materials, non-metallic minerals and government traffic.

*Mexico.* The Company's Mexico Group, headquartered in Houston, serves as a marketing and service link between the Company's business development groups and markets in Mexico. The Company maintains a working relationship with FNM. During 1994, approximately 176,000 carloads, or 7.7% of the Company's total carloads, were from traffic with Mexico. FNM and the Company are working on establishing through rates for carload shipments of selected commodities through all six of the gateways to Mexico served by the Company. The Company also provides intermodal container service linking the ICTF and Mexico City and has developed joint marketing arrangements with Mexican trucking companies establishing single through rates on a truck-rail-truck delivery system.

**Physical Plant and Equipment**

*Roadway, Yards and Structures.* At December 31, 1994, the Company had approximately 22,500 miles of track in operation, consisting of approximately 14,500 miles of first main track and approximately 8,000 miles of additional main track, passing track, way switching track and yard switching track. Miles of first main track include operating rights on 2,578 miles of track owned by other railroads. The Company is analyzing certain branchlines for possible sale, lease or abandonment. During 1994, the Company sold over 345 miles of such lines in Oregon and California. The Company will continue in its efforts to dispose of the branchlines and will continue to identify additional properties, including other branch lines, rail yards and terminals, that can be made available for sale, lease or abandonment. To the extent proceeds from such dispositions are less than the Company's basis in those properties, a non-cash financial statement loss would be recognized.

Principal railroad yard facilities owned by the Company are located at Eugene, Oregon; Sacramento, Roseville, Oakland, Los Angeles and West Colton, California; Houston, Texas; Pine Bluff, Arkansas; and Kansas City, Kansas; Denver, Pueblo and Grand Junction, Colorado; and Salt Lake City, Utah. As part of its effort to rationalize operations, the Company is identifying and assessing opportunities for consolidation of its railroad yard facilities.

*Equipment.* In late 1993 and throughout 1994, as part of a program to upgrade its locomotive fleet, the Company acquired 150 new locomotives, 17 of which were delivered in the last quarter of 1993 with the balance delivered in 1994. Additionally, the Company has acquired 133 remanufactured locomotives of which 115 were delivered in 1994 and the balance in early 1995. These locomotives were financed by capital leases for which the capitalized lease obligation was approximately $221 million. In 1994, the Company acquired through capital lease financing approximately 1,400 freight cars (700 newly manufactured and 700 remanufactured) for which the total capitalized lease obligation was approximately $56 million. The Company has also received approximately 1,600 additional reconditioned freight cars in 1994 on which it expects to complete capital lease financing in 1995. In addition, the Company acquired 350 used freight cars in 1994 under operating leases.

At December 31, 1994, the Company owned (including equipment under capitalized leases) or leased the equipment described in the table below. The table excludes equipment held under short-term leases. At December 31,

1994, there were 150 locomotives subject to short-term leases. At December 31, 1994, there were approximately 1,585 non-serviceable freight cars in storage, which included freight cars awaiting sale to a third party for rehabilitation and leaseback and freight cars scheduled for repair.

| Description | December 31, 1994 | | | | | |
|---|---|---|---|---|---|---|
| | Owned | | Leased | | Total | |
| | Units | Average Age (years) | Units | Average Age (years) | Units | Average Age (years) |
| **Locomotives:** | | | | | | |
| Road | 1,769 | 10.8 | 295 | 12.9 | 2,064 | 11.1 |
| Other | 337 | 20.4 | 12 | 20.8 | 349 | 20.4 |
| Total | 2,106 | | 307 | | 2,413 | |
| **Freight:** | | | | | | |
| Box | 15,441 | 19.0 | 2,454 | 10.6 | 17,895 | 16.3 |
| Tank | 72 | 25.3 | 18 | 3.1 | 90 | 20.9 |
| Gondola | 2,773 | 20.4 | 2,658 | 5.8 | 5,431 | 13.3 |
| Hopper | 8,924 | 19.6 | 5,431 | 10.5 | 14,355 | 16.0 |
| Flat | 5,134 | 21.7 | 1,724 | 7.8 | 6,858 | 18.2 |
| Total | 32,344 | | 12,285 | | 44,629 | |
| **Company service units and cabooses** | 1,338 | | 41 | | 1,379 | |
| **Highway trailers and tractors** | - | | 4,576 | | 4,576 | |

At December 31, 1993, the Company owned and leased 1,878 and 357 locomotives, respectively and 31,481 and 10,329 freight cars, respectively.

The components of the Company's equipment lease and rental expense are shown below (in million of dollars):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Operating leased equipment | $89.9 | $109.1 | $ 85.4 |
| Net car hire expense from other railroads | 57.1 | 54.8 | 42.4 |
| Private cars, intermodal and other equipment | 183.7 | 177.1 | 172.7 |
| Total | $330.7 | $341.0 | $300.5 |

*Capital Expenditures and Maintenance.* Improvement and on-going maintenance of roadway, structures and equipment are essential components of the Company's efforts to improve service and reduce operating costs. The Company has made the following railroad capital expenditures in order to maintain and improve train service (in millions of dollars):

**Capital Expenditures**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1994 | 1993[1] | 1992 |
| Roadway and structures | $188.1 | $209.5 | $263.4 |
| Railroad equipment: | | | |
| Locomotives | 69.9 | 21.1 | 70.4 |
| Freight cars | 6.4 | 6.5 | 0.2 |
| Other | 5.2 | 7.3 | 4.9 |
| Total | $269.6 | $244.4 | $338.9 |
| Capitalized Leases | $265.2 | $ 57.0 | - |

[1] Excludes equipment previously under operating leases purchased with $65.3 million of the proceeds of capital and debt transactions ($30.1 million for locomotives and $35.2 million for freight cars).

The Company's capital expenditures for railroad operations for 1995 are expected to be approximately $317 million (exclusive of capital leases) including $271 million for roadway and structures and $46 million for railroad equipment and other items.

The Company has ordered an additional 206 AC powered locomotives to be financed by capitalized lease financing that are scheduled to be delivered during the second and third quarters of 1995. In addition, the Company has ordered 920 new hopper cars and expects to receive approximately 1,500 reconditioned freight cars in 1995. The Company expects to finance these acquisitions through capitalized lease financing. The total expected capitalized lease obligation to be incurred during 1995, including the 1,600 reconditioned freight cars received in 1994 for which financing is scheduled to be arranged in 1995, is approximately $400 million.

The following table shows the Company's expenses for on-going maintenance and repairs of roadway and structure and railroad equipment (including administrative and inspection costs) for the periods indicated (in millions of dollars):

**Maintenance Expenditures**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 1994 | 1993 | 1992 |
| Roadway and structures | $202.8 | $247.1 | $282.4 |
| Railroad equipment: | | | |
| Locomotives | 236.0 | 240.9 | 228.5 |
| Freight cars | 133.7 | 127.4 | 149.3 |
| Other | (0.6) | 3.6 | 7.6 |
| Total | $571.9 | $619.0 | $667.8 |

**Transit Corridor and Real Estate Sales**

The disposition of urban and intercity transit corridors and surplus real estate, mostly in metropolitan areas along the Company's rights of way, is a major component of the Company's business strategy and is conducted as part of the Company's ordinary course of business. The Company markets properties that are classified generally into two distinct types: transit corridors and consolidated freight corridors, which are typically sold to public agencies, and traditional real estate, which is typically sold to different groups of potential buyers. From January 1, 1989 through December 31, 1994, the Company received over $1.7 billion in proceeds from its real estate asset disposition program. During that time, such sales were necessary for the Company to meet its capital expenditure, debt service and other cash needs. Of the $1.7 billion in proceeds, a total of $362 million was received during 1993 and 1994, with $235 million coming from the Alameda Corridor sale in December 1994. The Company has identified certain operating properties that it might sell in the future if it can do so without impacting its railroad operations. Management has not made a firm decision to remove any of these properties from its operating system. In order to enhance the value of certain properties and facilitate their disposition, the Company has participated in the past and may in the future participate with others in the development of such properties by contributing the property and funding to joint ventures or other entities, participating in sale and leaseback arrangements and engaging in other transactions that do not involve immediate cash proceeds. In addition, in order to facilitate sales or otherwise enhance values of transit corridors and other facilities, the Company may form joint ventures with private partners or public entities or engage in other innovative transactions.

*Transit Corridors.* The Company's sales efforts have focused particularly on, and most of the proceeds since January 1, 1989 resulted from, the sale of transit corridor properties that consist of the Company's rights of way and related tracks and rail stations that provide a natural corridor over which a metropolitan, regional or other geographic area can establish and operate public transportation systems or consolidated freight corridors (for use by more than one railroad). The Company usually retains freight operating rights over these corridors to continue rail service to its customers. During 1994, the Ports of Los Angeles and Long Beach purchased SPT's Alameda Corridor for $235 million. Earlier sales include the Los Angeles County Transportation Commission's purchase of over $400 million of SPT's property and the Peninsula Corridor Joint Powers Board's purchase of SPT's Peninsula Corridor for approximately $220 million, with an additional $110 million of property covered by purchase options, approximately $79 million of which have not lapsed, been exercised or extinguished.

*Traditional Real Estate.* In addition to transit corridors, the Company sells traditional real estate that consists principally of industrial and commercial properties located in developed areas on the Company's system. The Company's supply of properties includes several thousand parcels that are available or could be made available for sale within the next few years (without including properties currently leased by the Company to tenants).

*Lease Activities.* The Company actively administers approximately 21,000 leases that represent most of the Company's annual rental income. Generally, the Company does not target its leased properties for sale unless the annual rental does not reflect an appropriate return on the property. Under its leases, the Company receives annual gross rental income of nearly $45 million, which includes income from uses of its rights of way for such purposes as signboards, longitudinal fiber optics and pipelines.

**Employees and Labor**

Labor and related expenses accounted for approximately 38% of the Company's railroad operating expenses in 1994. At December 31, 1994, the Company employed 18,010 persons, which represents a reduction of approximately 972 from January 1, 1994. The December 31, 1994 employment figure includes 17,785 employed in the Company's rail operations. These reductions resulted from attrition and voluntary separations, severance, early retirement programs and furloughs.

At December 31, 1994, approximately 88% of the Company's railroad employees were covered by collective bargaining agreements with railway labor organizations that are organized along craft lines, where employees are grouped

together by job and historical practice. Historically, many collective bargaining agreements in the railroad industry have been negotiated on a nationwide basis with the railroads being represented by the National Railway Labor Conference. In November 1993, the Company withdrew its participation with the National Railway Labor Conference with respect to the current bargaining round indicating it would negotiate wage and work rule agreements separately from any nationwide negotiations conducted by other Class I railroads.

Labor relations in the railroad industry are subject to extensive governmental regulation under the Railway Labor Act ("RLA"). The most recent national collective bargaining agreements with the major railway labor organizations and the railroads, including the Company, expired in 1988, and negotiations failed to resolve the wage and work rule issues. After various presidential and legislative actions in 1991, because of its constrained financial condition, the Company was authorized to negotiate separately with certain of its employee unions, rather than on a nationwide basis with the railroads being represented by a bargaining committee, as is typically the case. These negotiations resulted in wage rates that are lower than the national rates for most of the Company's union employees and relieved the Company of the requirement to make certain lump sum payments to employees. These concessions were applied to the Company's railroad subsidiaries (other than D&RGW) and represent a substantial savings to the Company in terms of the labor costs it would have otherwise incurred. The agreements cover over 15,400 union employees of the Company.

In November 1993, the company entered into a labor agreement with the United Transportation Union ("UTU"), which represents approximately 2,300 trainmen and switchmen on the Company's Western Lines. The agreement, which resolved the issues from 1988 and continues through 1997, provided for a reduction of 210 surplus employees, the elimination of a reserve board (employees who are paid a percentage of salary but stay home awaiting recall), and a wage freeze through the end of 1997. As a result, the Company became the only Class I railroad without reserve boards for any of its lines.

All of the Company's labor agreements became subject to modification (except the Western Lines UTU Agreement) in January 1995. Wages for approximately half of the Company's employees covered by these agreements are required to return to wage levels prevailing under nationwide railway collective bargaining agreements in 1995. Wages for the other employees covered by the agreements (including the Western Lines UTU) do not require restoration to national wage levels and are subject to resolution in the next round of negotiations which began in late 1994. In addition, all of the Company's labor agreements (except for the agreement related to UTU employees on the Company's Western Lines) provide for cost-of-living increases on a semi-annual basis beginning July 1, 1995. The additional cost to the Company of these automatic increases could be substantial.

As a result of local negotiations in the current bargaining round, the Company has entered into six agreements which run through 1997 (includes the Western Lines UTU Agreement). Those agreements, which cover in excess of 3,800 employees, have been ratified by the union membership and cover all trainmen and switchmen on the St. Louis Southwestern Railway Company, the signalmen systemwide, yardmasters systemwide, switchmen on the Company's Eastern Lines, and the Company's intermodal facilities at Long Beach and Oakland. Those agreements do not provide for general wage increases; however, they do provide for a 3% lump sum payment based on the performance of the Company as measured by its operating ratio. These agreements also provide for cost of living increases on July 1, 1995 and on July 1, 1996 but none thereafter. As of February 22, 1995, the Company is in negotiations with its clerical employees, locomotive engineers, shop craft employees and train dispatchers representing approximately 9,500 employees.

Under the RLA, labor agreements are renegotiated when they become open for modification, but their terms remain in effect until new agreements are reached. Typically, neither management nor labor is permitted to take economic action until extended procedures are exhausted.

Railroad industry personnel are covered by the Railroad Retirement Act ("RRA") instead of the Social Security Act. Employer contributions under the RRA are currently substantially higher than those under the Social Security Act and may rise further because of the increasing proportion of retired employees receiving benefits relative to the number of working employees.

Railroad industry personnel are also covered by the Federal Employer's Liability Act ("FELA") rather than by state workers' compensation systems. FELA is a fault-based system, with compensation for injuries settled by negotiation and litigation. By contrast, most other industries are covered under state-administered no-fault plans with standard compensation schedules.

**Governmental Regulation**

The Company is subject to environmental, safety, health and other regulations generally applicable to all businesses. In addition, the Company, like other rail common carriers, is subject to regulation by the ICC, the Federal Railroad Administration, state departments of transportation and some state regulatory agencies.

Government regulation of the railroad industry is a significant determinant of the competitiveness and profitability of railroads. Deregulation of certain rates and services pursuant to the Staggers Act has substantially increased the flexibility of railroads to respond to market forces, while the deregulated environment has resulted in highly competitive and steadily decreasing rates.

The ICC has jurisdiction, which is limited in certain circumstances, over, among other things, rates charged by rail carriers for certain traffic movements, service levels, car rental payments, the issuance or guarantee of railroad securities, the terms under which one railroad may gain access to another railroad's traffic or facilities, extension or abandonment of rail lines, consolidation, merger or acquisition of control of rail common carriers and labor protection for certain transactions. Currently the United States Congress has under consideration proposals to reduce the scope of regulation over railroads, eliminate the ICC and transfer remaining regulatory functions to another federal agency. It is unclear whether, or to what extent, any such proposals will be enacted and whether any changes in current regulation of the industry would materially affect the Company.

The Federal Railroad Administration has jurisdiction over railroad safety and equipment standards. State departments of transportation and regulatory agencies also have jurisdiction over certain local safety and operating matters, and these state and local agencies have become more aggressive in their exercise of jurisdiction.

**Competition**

The Company's business faces intense competition from railroads and motor carriers. Competition with other railroads and modes of transportation is generally based on the rates charged, as well as the quality and reliability of the service provided. The Company's intermodal traffic and certain other traffic contront highly price sensitive competition, particularly from motor carriers. Some competitors have substantially greater financial and other resources than the resources of the Company. This factor and other competitive pressures have led to a downward pressure on rates. If this were to result in declining margins, it could have an adverse effect on the Company's operating results.

The consolidation in recent years of major western rail systems has resulted in particularly strong competition in the service territory of the Company. Further consolidation of the Company's rail competitors could adversely affect the Company's competitive position and operating results. Such further consolidations include the acquisition by Union Pacific Railroad Company ("Union Pacific") of control of the Chicago and Northwestern Holdings Corp. ("CNW"), which was approved by the ICC in an order served March 7, 1995, and the proposed merger of Burlington Northern Railroad Company ("BN") and the Atchison Topeka and Santa Fe Railway Company ("ATSF"), which has been approved by their respective shareholders and for which BN and Santa Fe filed an application for approval with the ICC in November 1994. In their application to the ICC, BN and ATSF asserted that the Company's gross revenues from rail operations would be reduced by approximately $60.8 million as a result of diversions of traffic if the proposed merger is completed. The Company currently is conducting its own studies and is obtaining assessments of potential diversions from independent experts in preparation for its filings with the ICC relating to the proposed BN/ATSF merger. Preliminary analysis suggests, however, that diversions resulting from the merger could substantially exceed the amounts asserted by BN and ATSF if appropriate conditions are not obtained or imposed in the merger proceedings. Because competition otherwise will be reduced by the

proposed merger, the Company will be requesting conditions (such as operating and haulage rights and access to certain shipping points) that would preserve competition and substantially prevent a loss of revenue. The Company is seeking and expects to obtain significant shipper support for conditions it will be requesting. There is no assurance, however, that the conditions requested by the Company will be obtained or imposed.

Certain segments of the Company's freight traffic, notably intermodal, face highly price sensitive competition from trucks, although improvements in railroad operating efficiencies are tending to lessen the truckers' cost advantages. Trucks are not obligated to provide or to maintain rights of way and they do not have to pay real estate taxes on their routes. In recent years, the trucking industry diverted a substantial amount of freight from the railroads as truck operators' efficiency over long distances increased. Because fuel costs constitute a larger percentage of the trucking industry's costs, declining fuel prices disproportionately benefit trucking operations as compared to railroad operations. Truck competition has also increased because of legislation removing many of the barriers to entry into the trucking business and allowing the use of wider, longer and heavier trailers and multiple trailer combinations in many areas.

**Environmental Matters**

The Company's operations are subject to extensive federal, state and local regulation under environmental laws and regulations concerning, among other things, emissions to the air, discharges to waters and the generation, handling, storage, transportation, treatment and disposal of waste or other materials. Inherent in the railroad operation of the Company is the risk of environmental liabilities as a result of both current and past operations. The Company regularly transports chemicals and other hazardous materials for shippers, as well as using hazardous materials in its own operations. Environmental liability can extend to previously owned properties, leased properties and properties owned by third parties, as well as properties currently owned and used by the Company. Environmental liabilities can be asserted by adjacent landowners or other third parties in toxic tort litigation. Also, the Company has indemnified certain property purchasers as to environmental contingencies.

In addition to costs incurred on an on-going basis associated with regulatory compliance in its business, the Company may have environmental liability in three general situations. First, under the Federal Comprehensive Environment Response, Compensation and Liability Act of 1980 as amended ("CERCLA"), it might have liability for having disposed of wastes at waste disposal sites that are believed to pose threats to the public health or the environment, without regard to fault or the legality of waste generation or of the original disposal. Second, under CERCLA and applicable state statutes, the current owner or operator of any real property, not just waste disposal sites, may incur liability for hazardous substances located on the property or that have migrated to adjoining properties even though such wastes were deposited by a prior owner, operator or tenant. A former owner or operator of real property may incur liability for hazardous substances located on the property even though such wastes were deposited by another owner, operator or tenant; and a former owner or operator of real property may incur liability after the sale of the property for hazardous waste disposed on the property during the time that it owned, operated or leased the property. The third general area is that associated with the accidental release of hazardous materials or substances during a transportation incident, such as a derailment. Federal, state and local laws and regulations may impose (again, without regard to fault), requirements for clean-up of contaminated soils and surface or groundwater resulting from a derailment; and there may also be long-term monitoring requirements to evaluate the impacts on the environment and natural resources. In addition, adjacent land owners or other third parties sometimes initiate toxic tort litigation against the type of sites described above.

State and local agencies, particularly in California where the Company has extensive operations, have become increasingly active in the environmental area. The increased regulation by multiple agencies can be expected to increase the Company's future environmental costs.

The Company has made and will continue to make substantial expenditures relating to the assessment and remediation of environmental conditions on its properties, including properties held for sale. During 1994 and 1993 the Company spent approximately $20.8 million and $17.0 million, respectively, relating to the assessment and remediation of environmental conditions of operating properties and non-operating properties not held for sale, excluding the effects of the 1991 derailment at Dunsmuir, California. In 1994 and 1993, the Company also incurred approximately $13.2 million and