STB FD 32760 11-30-95 A 1648V26 6/7

The following summarizes the components of SPRC's net periodic pension cost under the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions":

	Year Ended December 31,		
(in millions)	1994	1993	1992
Service costs—benefits covered during the year	$ 5.1	$ 5.5	$ 4.9
Interest cost on projected benefit obligation	29.9	31.2	31.5
Actual (return)/loss on plan assets	0.7	(40.1)	(17.6)
Net amortization and deferral	(32.0)	7.5	(16.1)
NET PERIODIC PENSION COST	$ 3.7	$ 4.1	$ 2.7

The following summarizes the funded status and amounts recognized in SPRC's consolidated balance sheets for the SPRC Pension Plan:

	December 31,	
(in millions)	1994	1993
Actuarial present value of benefit obligations		
Vested benefits	$ 335.1	$ 366.0
Non-vested benefits	6.0	7.8
ACCUMULATED BENEFIT OBLIGATION	$ 341.1	$ 373.8
Projected benefit obligation	$ 376.9	$ 420.8
Fair value of assets in plan	328.3	363.2
Projected benefit obligation in excess of plan assets	(48.6)	(57.6)
Unrecognized transition amount	(3.9)	(4.6)
Unrecognized gain or loss	7.8	20.7
Unrecognized prior service cost	4.3	4.8
NET PENSION LIABILITY INCLUDED IN SPRC'S BALANCE SHEET	$ (40.4)	$ (36.7)

The following summarizes the significant assumptions used in accounting for the SPRC Pension Plan:

	December 31,		
	1994	1993	1992
Weighted average discount rate	8.5%	7.25%	8.0%
Expected rate of increase in future compensation levels	6.0%	6.0%	6.0%
Weighted average expected long-term rate of return on plan assets	9.0%	9.0%	9.0%

Thrift Plan

SPRC has established a defined contribution plan (the "SPRC Thrift Plan") as an individual account savings and investment plan primarily for employees of SPRC who are not subject to a collective bargaining agreement. Eligible participants may contribute a percentage of their compensation and the Company also contributes using a formula based on participant contributions.

Post-retirement Benefits Other Than Pensions

The Company sponsors several plans which provide health care and life insurance benefits to retirees who have met age and service requirements. The contribution rates that are paid by retirees are adjusted annually to offset increases in health care costs, if any, and fix the amounts payable by the Company. The life insurance plans provide life insurance benefits for certain retirees. The amount of life insurance is dependent upon length of service, employment dates and several other factors and increases in coverage beyond certain minimum levels are borne by the employee. Prior to January 1, 1993, the Company's policy was to expense and fund the cost of all retiree welfare benefits only as the benefits were payable. The Company charged to expense $24.4 million in 1992 for these benefits.

The Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Post-retirement Benefits Other Than Pensions," effective January 1, 1993. The effect of adopting Statement No. 106 on net income and the net periodic benefit cost (expense) for 1993 was a charge to earnings of $168.5 million (less income taxes of $64.3 million). The Company's policy continues to be to fund the cost of all retiree welfare benefits only as the benefits are payable. Accordingly, there are no plan assets.

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The following table summarizes the plan's accumulated post-retirement benefit obligation:

	December 31,					
	Health Care	Life Insurance	Total	Health Care	Life Insurance	Total
(in millions)		**1994**			**1993**	
Retirees	$ 41.1	$ 92.0	$133.1	$ 47.2	$ 107.7	$ 154.9
Fully eligible plan participants	8.6	5.4	14.0	10.9	7.7	18.6
ACCUMULATED POST-RETIREMENT BENEFIT OBLIGATION	$ 49.7	$ 97.4	$147.1	$ 58.1	$ 115.4	$ 173.5
Unrecognized net gain (loss)			13.7			(8.4)
Plan amendment			4.1			4.3
ACCRUED POST-RETIREMENT BENEFIT COST INCLUDED IN OTHER LIABILITIES			$164.9			$ 169.4

As of December 31, 1994 and 1993, the current portion of accrued post-retirement benefit cost was approximately $16.3 million and $20.6 million, respectively, and the long-term portion was approximately $148.6 million and $148.8 million, respectively.

The net periodic post-retirement benefit costs for 1994 and 1993 include the following components:

(in millions)	**1994**	**1993**
Service cost	$ 0.8	$ 0.7
Interest cost	12.0	12.7
Amortization of plan amendment	(0.2)	—
NET PERIODIC POST-RETIREMENT BENEFIT COST	$ 12.6	$ 13.4

For measurement purposes, the Company has not assumed an annual rate of increase in the per capita cost of covered benefits for future years since the Company has limited its future contributions to current levels. The weighted average discount rate used in determining the benefit obligation was 8.5%.

Post-employment Benefits

In November 1992, the FAS issued Statement No. 112 "Employers' Accounting for Post-employment Benefits." FAS 112 requires employers to recognize the obligation to provide benefits to former or inactive employees after employment but before retirement, if certain conditions are met. Effective January 1, 1994, the Company adopted FAS 112 and recorded a $9.8 million pre-tax charge ($6.0 million after tax). The Company's policy continues to be to fund the cost of post-employment benefits as the benefits are payable.

1990–1994 Long-Term Earnings Growth Incentive Plan and Annual Incentive Compensation Plans

Certain officers of the Company were covered by the 1990–1994 Long-Term Earnings Growth Incentive Plan of the Company. The 1992 and 1993 Annual Incentive Compensation Plans covered all exempt employees of the Company. Based on the provisions of these plans, no amounts were paid or charged to expense in 1994, 1993 or 1992.

Equity Incentive Plan

The SPRC Compensation Committee has authorized a grant of stock bonuses under SPRC's Equity Incentive Plan covering up to 1,555,000 shares of SPRC common stock, in the aggregate, to 28 key executive employees of the Company, contingent upon the attainment of certain pre-established corporate financial and individual performance objectives. A portion of each stock bonus grant is subject to the achievement of an operating ratio of 89.5% for 1994, 88.0% for 1995, 85.0% for 1996, or 83.0% for 1997, as well as individual performance objectives during those same years. If the required SPRC operating ratio for any year is not achieved, or if the required individual performance objectives are not achieved, the SPRC Compensation Committee of the Board of Directors may in its discretion award a portion of such shares. In 1994, the Company charged to expense approximately $7.5 million representing the value of approximately 413,000 shares which were awarded in January 1995, pursuant to the Equity Incentive Plan.

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11. Related Parties

The Company has maintained separate accountability for the operating activities of its principal railroad subsidiaries as to the sharing of freight revenues and charges for use of railroad equipment and joint facilities. Interline accounts receivable and payable continue to be settled through the traditional clearing process between railroads. The railroads are coordinating and, where appropriate, consolidating the marketing, administration, transportation and maintenance operations of the railroads.

Subsidiaries of Anschutz Company perform specific services for the Company's railroad subsidiaries primarily relating to the purchase and administration of locomotive fuel and fuel futures contracts and fiber optic telecommunications. The amount paid by the Company in 1994 for these transactions was $7.9 million. The Company believes that the terms of these transactions are comparable to those that could be obtained from unaffiliated parties.

In 1994, the Company purchased an office building in Denver for $5.5 million from family trusts in which Mr. Anschutz and certain members of his family have an interest. The Company obtained an independent appraisal of the building pursuant to which the fair market value of the building was determined to be in excess of the purchase price.

12. Commitments and Contingencies

As a holding company, the Company is dependent upon the business activity and real estate sales of its subsidiaries to meet its consolidated debt obligations and to make payments to buy-out surplus employees and make capital expenditures expected to be required by the Company. The various debt agreements of SPT contain restrictions as to payment of dividends to the Company. SPT is permitted to make advances or dividends to its parent in order for certain specified interest and dividends to be paid by its parent.

On November 4, 1993, the Company and Integrated Systems Solutions Corporation ("ISSC"), a subsidiary of IBM, entered into a ten-year agreement under which ISSC will handle all of the Company's management information services ("MIS") functions. These include systems operations, application development and implementation of a disaster recovery plan. Pursuant to the agreement, the Company is obligated to pay annual base charges of between $45 million and $50 million (which covers, among other things, payments for MIS equipment and personnel) over a ten-year period subject to adjustments for cost of living increases and variations in the levels of service provided under the agreement.

Inherent in the operations of the transportation and real estate business is the possibility that there may exist environmental conditions as a result of current and past operations which might be in violation of various Federal and state laws relating to the protection of the environment. In certain instances, the Company has received notices of asserted violation of such laws and regulations and has taken or plans to take steps to address the problems cited or to contest the allegations of violation. The Company has recorded reserves to provide for environmental costs on certain operating and non-operating properties. Environmental costs include site remediation and restoration on a site-by-site basis, as well as costs for initial site surveys and environmental studies of potentially contaminated sites. The Company has made and will continue to make substantial expenditures relating to environmental conditions on its properties, including properties held for sale. In assessing its potential environmental liabilities, the Company typically causes ongoing examinations of newly identified sites and evaluations of existing clean-up efforts to be performed by environmental engineers. These assessments which usually consider a combination of factors such as the engineering reports, site visits, area investigations and other steps, are reviewed periodically by counsel. Due to uncertainties as to various issues such as the required level of remediation and the extent of participation in clean-up efforts by others, the Company's total clean-up costs for environmental matters cannot be predicted with certainty. 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. During the years ended December 31, 1994, 1993 and 1992 the Company recognized expenses of $17.6 million, $24.2 million and $27.6 million, respectively, related to environmental matters. At December 31, 1994 and 1993 the Company had accrued reserves for environmental contingencies of $65.2 million and $62.3 million, respectively, which includes $13.4 million and $17.1 million, respectively, in current liabilities. These reserves relate to estimated liabilities for operating and non-operating properties not held for sale and certain properties previously sold and were exclusive of any significant future recoveries from insurance carriers. Based on the Company's assessments described above, other available information and the amounts of the Company's established 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 position. However, there can be no assurance that material liabilities or costs related to environmental matters will not be incurred in the future.

A substantial portion of the Company's railroad employees are covered by collective bargaining agreements with national railway labor organizations that are organized along craft lines. These agreements are generally negotiated on a multi-employer basis with the railroad industry represented by a bargaining committee. The culmination of various Presidential and legislative events in 1992 resulted in the Company negotiating most of its labor agreements separately. Certain of the wage agreements obtained in 1991, 1992 and 1993 have reduced the effects of inflation on operating costs but provide for cost of living increases beginning in 1995. A substantial number of the labor agreements expire and are subject to renegotiation in 1995.

To ensure stability of its fuel costs, the Company has entered into fuel hedging agreements covering approximately 95% of its estimated 1995 fuel needs at an average purchase price of $.49 per gallon (excluding handling costs). However, in the event that fuel prices decline below the average purchase price under the hedging agreements, the Company will not receive any benefit from these fuel hedging agreements and may in fact pay more for fuel than it would have paid in the absence of such agreements.

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 has not yet decided whether to appeal this order. Whether or not the Company's position is sustained, the amount owed Union Pacific will be substantial. Management has made adequate provision for this matter in current liabilities in its financial statements.

In July 1991, a derailment occurred near Dunsmuir, California. While certain aspects of the matter have not been resolved and the total amount of damages and related costs cannot be determined at this time, SPT is insured against most types of damages and related costs involved with the Dunsmuir derailment to the extent that they exceed $10 million. As of December 31, 1994, SPT has paid approximately $46.8 million related to the Dunsmuir derailment, of which $12.0 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. As a result, disposition of these matters is not expected to have a material adverse effect on the Company's financial condition.

Although the Company has purchased insurance, the Company has retained certain risks 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 a material adverse effect on the Company's consolidated financial position.

13. Supplemental Cash Flow Information

Supplemental cash flow information for the years ended December 31, 1994, 1993 and 1992 is as follows:

	December 31,		
(in millions)	1994	1993	1992
CASH PAYMENTS (REFUNDS)			
Interest	$130.2	$115.0	$124.5
Income taxes	1.7	(0.5)	1.0
NON-CASH TRANSACTIONS			
Sales of real estate for notes receivable	27.9	—	—
Capital lease obligations for railroad equipment	265.2	57.0	—

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14. Quarterly Data (unaudited)

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1994				
Operating revenues	$ 748.2	$ 806.6	$ 807.3	$ 780.5
Operating income	62.3	107.4	97.1	78.9
Other income (expense)	1.2	10.5	(4.0)	213.3
Net income (loss)[a]	9.0	48.5	33.5	150.7
Earnings per share:				
Primary:				
Before effect of change in accounting	$ 0.11	$ 0.31	$ 0.22	$ 0.97[c]
Cumulative effect of change in accounting	(0.05)	—	—	—
TOTAL	$ 0.06	$ 0.31	$ 0.22	$ 0.97[c]
Fully diluted:				
Before effect of change in accounting	$ 0.11	$ 0.31	$ 0.22	$ 0.97[c]
Cumulative effect of change in accounting	(0.05)	—	—	—
TOTAL	$ 0.06	$ 0.31	$ 0.22	$ 0.97[c]
1993				
Operating revenues	$ 676.3	$ 745.7	$ 753.8	$ 742.8
Operating income (loss)	20.9	59.8	0.1	22.4
Other income (expense)	3.1	(4.1)	(41.2)	19.8
Net income (loss)[b]	(110.7)	10.4	(52.7)	3.9
Earnings per share:				
Primary:				
Before effect of change in accounting	$ (0.12)	$ 0.11	$ (0.54)	$ 0.03
Cumulative effect of change in accounting	(1.46)	—	—	—
TOTAL	$ (1.58)	$ 0.11	$ (0.54)	$ 0.03
Fully diluted:				
Before effect of change in accounting	$ (0.09)	$ 0.08	$ (0.47)	$ 0.03
Cumulative effect of change in accounting	(1.04)	—	—	—
TOTAL	$ (1.13)	$ 0.08	$ (0.47)	$ 0.03

(a) First quarter 1994 data includes an extraordinary charge of $6.0 million (net of taxes) for the change in accounting for post-employment benefits (FAS 112).

(b) First quarter 1993 data includes an extraordinary charge of $104.2 million (net of taxes) for the change in accounting for post-retirement benefits other than pensions (FAS 106).

(c) Fourth quarter 1994 data includes a gain on the sale of the Alameda Corridor of approximately $.83 per share.

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Supplementary Information (unaudited)

The Company's common stock is listed on the New York Stock Exchange under the symbol "RSP." The common stock was listed in connection with its initial public offering completed in August 1993.

The following table sets forth the high and low reported last sale prices for the common stock for the calendar quarters indicated below as reported on the New York Stock Exchange Composite Tape:

	High	Low
1994		
First Quarter	$ 24	$ 18¾
Second Quarter	23⅜	19½
Third Quarter	21¾	18⅝
Fourth Quarter	19¾	17
1993 Third Quarter (from August 10)	$ 16½	$ 15
Fourth Quarter	21¼	15½

At February 28, 1995, the closing price of the common stock on the New York Stock Exchange was $17⅞. As of February 28, 1995, there were approximately 748 shareholders of record of the common stock.

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Corporate Information

Directors of Southern Pacific Rail Corporation

PHILIP F. ANSCHUTZ
Chairman
Southern Pacific Rail Corporation
San Francisco, California
Director, Chairman of the Board and President
The Anschutz Corporation
Denver, Colorado

JERRY R. DAVIS
President and Chief Executive Officer
Southern Pacific Rail Corporation
San Francisco, California

ROBERT F. STARZEL
Vice Chairman
Southern Pacific Rail Corporation
San Francisco, California

JORDAN L. HAINES
Director and retired Chairman
Fourth Financial Corporation
Wichita, Kansas

DOUGLAS L. POLSON
Director and Vice President
The Anschutz Corporation
Denver, Colorado

FRANK V. SICA
Managing Director
Morgan Stanley & Co. Incorporated
New York, New York

Executive Committee
Compensation and Benefits Committee
Audit Committee

Officers of Southern Pacific Rail Corporation

PHILIP F. ANSCHUTZ
Chairman

JERRY R. DAVIS
President and Chief Executive Officer

ROBERT F. STARZEL
Vice Chairman

DONALD C. ORRIS
Executive Vice President—Operations and Distribution Services

CANNON Y. HARVEY
Executive Vice President—Finance and Law and General Counsel

THOMAS J. MATTHEWS
Senior Vice President—Administration

LAWRENCE C. YARBERRY
Vice President—Finance

BRIAN C. KANE
Controller

LYNN K. DUCKEN
Treasurer

THOMAS F. O'DONNELL
Secretary

Executive Officers of Southern Pacific Lines

JERRY R. DAVIS
Chairman and Chief Executive Officer

ROBERT F. STARZEL
Vice Chairman

DONALD C. ORRIS
President and Chief Operating Officer

CANNON Y. HARVEY
Executive Vice President—Finance and Law and General Counsel

THOMAS J. MATTHEWS
Senior Vice President—Administration

LAWRENCE C. YARBERRY
Vice President—Finance

MICHAEL D. ONGERTH
Vice President—Strategic Development

EUGENE P. REILLY
Vice President and Chief Engineer

PETER M. RUOTSI
Vice President—Intermodal

S. DAVID STEEL
Vice President—Real Estate Sales/Development

W. KENT STERETT
Vice President—Quality

MICHAEL E. UREMOVICH
Vice President—Marketing

JEFF L. VERHAAL
Vice President and Chief Transportation Officer

BRIAN C. KANE
Controller

LYNN K. DUCKEN
Treasurer

THOMAS F. O'DONNELL
Secretary

Corporate Information

SHARES LISTED
New York Stock Exchange
Ticker Symbol: RSP

CORPORATE OFFICE
Southern Pacific Building
One Market Plaza
San Francisco, California 94105
(415) 541-1000

STOCK TRANSFER AGENT AND REGISTRAR
Chemical Trust Company of California
50 California Street, 10th Floor
San Francisco, California
(415) 954-9516

CO-TRANSFER AGENT AND CO-REGISTRAR
Chemical Bank
450 W. 33rd Street
New York, New York 10001
1 (800) 356-2017

DIRECTOR OF INVESTOR RELATIONS
Robert E. Noorigian
1860 Lincoln Street, 14th Floor
Denver, Colorado 80295
(303) 812-5023

INDEPENDENT AUDITORS
KPMG Peat Marwick LLP
San Francisco, California

ANNUAL MEETING
The annual meeting of stockholders will be held at the Mandarin Oriental Hotel, 222 Sansome Street, San Francisco, California, on Thursday, April 27, 1995, at 10:00 a.m.

FORM 10-K
The Form 10-K annual report will be available to stockholders free of charge upon written request to the Director of Investor Relations at his above address.

E.J. Sarraf ... Group, Palo Alto, CA

SOUTHERN PACIFIC RAIL CORPORATION
ONE MARKET PLAZA
SAN FRANCISCO, CA 94105
(415) 541-1000

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549-1004

(Mark One)

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

For the quarterly period ended September 30, 1995

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 1-6075

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, Bethlehem, Pennsylvania
(Address of principal executive offices)

18018
(Zip Code)

(610) 861-3200
(Registrant's telephone number, including area code)

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 ______

As of October 31, 1995, there were 205,580,992 shares of the Registrant's Common Stock outstanding.

UNION PACIFIC CORPORATION
INDEX

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED INCOME

For the Three Months and Nine Months Ended September 30, 1995 and 1994
(Amounts in Millions, Except Ratio and Per Share Amounts)
(Unaudited)

	Three Months Ended September 30, 1995	Three Months Ended September 30, 1994	Nine Months Ended September 30, 1995	Nine Months Ended September 30, 1994
Operating Revenues	$ 1,974	$ 1,622	$ 5,512	$ 4,837
Operating Expenses:				
Salaries, wages and employee benefits	726	615	2,112	1,844
Equipment and other rents	200	151	541	464
Depreciation, amortization and retirements (Note 3)	172	136	469	402
Fuel and utilities (Note 7)	144	116	414	354
Materials and supplies	92	80	277	263
Other costs	261	197	704	579
Total	1,595	1,295	4,517	3,906
Operating Income	379	327	995	931
Other Income - Net	35	10	105	65
Interest Expense (Note 7)	(127)	(86)	(328)	(255)
Corporate Expenses	(26)	(35)	(80)	(68)
Income Before Income Taxes	261	216	692	673
Income Taxes	(101)	(82)	(252)	(253)
Income from Continuing Operations	160	134	440	420
Income (Loss) from Discontinued Operations (Notes 4 and 6)	77	(347)	212	(130)
Net Income (Loss)	$ 237	$ (213)	$ 652	$ 290
Earnings Per Share:				
Income from Continuing Operations	$ 0.78	$ 0.65	$ 2.14	$ 2.04
Income (Loss) from Discontinued Operations	0.37	(1.69)	1.03	(0.63)
Net Income (Loss)	$ 1.15	$ (1.04)	$ 3.17	$ 1.41
Weighted Average Number of Shares	206.1	205.6	205.8	205.6
Cash Dividends Per Share	$ 0.43	$ 0.43	$ 1.29	$ 1.23
Ratio of Earnings to Fixed Charges (Note 8)	--	--	2.8	3.2

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION

(Millions of Dollars)
(Unaudited)

ASSETS	September 30, 1995	December 31, 1994
Current Assets:		
Cash and temporary investments	$ 91	$ 115
Accounts receivable	473	396
Inventories	281	257
Income taxes receivable	123	241
Other current assets (Note 4)	127	340
Total Current Assets	1,095	1,349
Investments:		
Investments in and advances to affiliated companies (Note 2)	1,251	487
Other investments	154	170
Total Investments	1,405	657
Properties:		
Railroad (Note 3):		
Road and other	12,178	8,428
Equipment	4,783	4,658
Total Railroad	16,961	13,086
Trucking	736	704
Other	148	130
Total Properties	17,845	13,920
Accumulated depreciation, depletion and amortization	(4,527)	(4,250)
Properties - Net	13,318	9,670
Cost in Excess of Net Assets of Acquired Businesses - Net (Note 5)	669	870
Net Assets of Discontinued Operations (Note 4)	1,983	1,789
Other Assets	232	208
Total Assets	$ 18,702	$ 14,543

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(Amounts in Millions, Except Share and Per Share Amounts)
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 1995	December 31, 1994
Current Liabilities:		
Accounts payable	$ 151	$ 132
Accrued wages and vacation	289	217
Income and other taxes	218	134
Dividends and interest	184	191
Acquisition reserves (Note 3)	142	--
Debt due within one year	624	427
Other current liabilities	949	899
Total Current Liabilities	2,557	2,000
Debt Due After One Year (Notes 2 and 3)	6,546	4,052
Deferred Income Taxes (Note 5)	2,818	2,398
Other Liabilities (Note 9)	1,267	962
Stockholders' Equity:		
Common stock, $2.50 par value, authorized 500,000,000 shares, 232,300,590 shares issued in 1995, 231,837,976 shares issued in 1994	581	580
Paid-in surplus	1,466	1,428
Retained earnings	5,121	4,734
Treasury stock, at cost, 26,722,014 shares in 1995, 25,900,775 shares in 1994	(1,654)	(1,611)
Total Stockholders' Equity	5,514	5,131
Total Liabilities and Stockholders' Equity	$ 18,702	$ 14,543

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS

For the Nine Months Ended September 30, 1995 and 1994
(Millions of Dollars)
(Unaudited)

	1995	1994
Cash flows from operating activities:		
Net Income	$ 652	$ 290
Non-cash charges to income:		
Depreciation and amortization	469	402
Deferred income taxes	101	82
Other - Net	(675)	3
Changes in current assets and liabilities	786	(47)
(Income) loss from discontinued operations (Note 4)	(212)	130
Cash from continuing operations	1,121	860
Cash flows from investing activities:		
Capital investments	(653)	(677)
Investment in Southern Pacific (Note 2)	(976)	--
CNW acquisition (Note 3)	(1,170)	--
Cash provided (used) by discontinued operations (Note 4)	242	(389)
Other - Net	167	(6)
Cash used in investing activities	(2,390)	(1,072)
Cash flows from equity and financing activities:		
Dividends paid	(264)	(246)
Debt repaid (Note 3)	(1,394)	(123)
Purchase of treasury stock	(32)	(1)
Financings (Notes 2 and 3)	2,935	702
Cash generated in equity and financing activities	1,245	332
Net change in cash and temporary investments	$ (24)	$ 120

CONDENSED STATEMENT OF CONSOLIDATED RETAINED EARNINGS

For the Nine Months Ended September 30, 1995 and 1994
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	1995	1994
Balance at Beginning of Year	$ 4,734	$ 4,529
Net Income	652	290
Total	5,386	4,819
Dividends Declared ($1.29 per share in 1995; $1.23 per share in 1994)	(265)	(252)
Balance at End of Period	$ 5,121	$ 4,567

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Responsibilities for Financial Statements - The condensed consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The Condensed Statement of Consolidated Financial Position at December 31, 1994 is derived from audited financial statements. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Union Pacific Corporation (the Corporation or UPC) Annual Report to Stockholders incorporated by reference in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1994. The results of operations for the nine months ended September 30, 1995 are not necessarily indicative of the results for the entire year ending December 31, 1995.

2. Acquisition of Southern Pacific Rail Corporation (Southern Pacific) - On August 3, 1995, UPC and Southern Pacific entered into a definitive merger agreement (the Agreement) providing for the acquisition of Southern Pacific by UPC. Under the terms of the Agreement, UPC completed a first-step cash tender offer on September 15, 1995 pursuant to which approximately 39.03 million common shares or 25% of the outstanding common shares of Southern Pacific were acquired at a price of $25.00 per share. UPC borrowed $976 million under its existing credit facilities to fund the cash tender offer. Shares purchased under the cash tender offer were deposited in an independent voting trust in accordance with a voting trust agreement with Southwest Bank of St. Louis. Such shares shall remain in the voting trust pending a decision of the Interstate Commerce Commission (the ICC) on the Southern Pacific acquisition. The ICC has adopted an expedited schedule pursuant to which it will render a final decision within 255 days of the filing of an application with respect to the Southern Pacific acquisition. Such an application is expected to be filed on December 1, 1995.

   Following approval of the Southern Pacific acquisition by the ICC and the satisfaction of certain other conditions, including the approval by Southern Pacific shareholders, Southern Pacific will be merged into a subsidiary of UPC (the Merger). Upon completion of the Merger, each share of Southern Pacific common stock will be converted, at the holder's election, subject to proration, into the right to receive $25.00 in cash or 0.4065 shares of common stock of UPC. As a result, 60% of the Southern Pacific shares outstanding immediately prior to the Merger will be converted into shares of common stock of UPC, with the remaining 40% of the outstanding shares, including the shares acquired in the first-step cash tender offer, being acquired for cash.

3. Acquisition of Chicago and North Western Transportation Company (CNW) - On March 16, 1995, the Corporation executed a definitive merger agreement to acquire the remaining 71.6% of CNW's outstanding common stock not previously owned by UPC for $1.2 billion. Virtually all remaining CNW shares were acquired in a cash tender offer at $35 per share. UPC funded the CNW tender offer through the issuance of commercial paper, a portion of which UPC subsequently refinanced with $850 million of notes and debentures.

The acquisition of CNW has been accounted for as a purchase and CNW's financial results have been consolidated into UPC effective May 1, 1995. The allocation of the purchase price to the fair market value of CNW assets acquired and liabilities assumed is not yet complete. An appraisal of the CNW properties acquired is continuing, and although the purchase price allocation is incomplete it appears that all of the excess purchase price will be allocated to tangible long-lived assets. As a result of the anticipated allocation of the excess purchase price, the unallocated portion of the purchase price at September 30, 1995 has been included in the value of Railroad properties on the Condensed Statement of Consolidated Financial Position.

As part of the initial purchase price allocation, UPC recorded $190 million of pre-tax reserves, principally relating to the elimination or relocation of redundant functions created by the acquisition of CNW. The reserves include $110 million for costs to reduce CNW's work force by approximately 1,100; $34 million for the relocation of approximately 1,000 CNW employees; and $22 million for labor protection relating to legislated, as well as contractual, obligations to CNW union employees. Management employee terminations and relocations are expected to be completed by year-end 1995. Union work-force reductions must be negotiated under existing labor agreements and are anticipated to be completed in 1996. In addition, $24 million is included in the reserves for the settlement or buyout of lease obligations of CNW relating to facilities or equipment not required by the combined company. Through September 30, 1995, $46 million had been paid and charged to the reserves, principally comprising costs to terminate approximately 350 employees (including $14 million related to certain former executives of CNW) and relocate CNW employees throughout the Union Pacific rail system.

These initial reserve estimates are subject to the finalization of the consolidation plans and therefore are subject to change. The reserves may be adjusted to reflect any revisions to the number of employees affected, as well as to the actual amounts paid and expected to be paid, which are subject to unionized labor negotiations and management employees' current salaries and years of service.

4. <u>Discontinued Operations</u>

Union Pacific Resources Group Inc. (Resources): On July 27, 1995, the Corporation's Board of Directors approved a formal plan to exit its natural resources business. The plan included an initial public offering (IPO) by Resources of up to 17.25 percent of its outstanding common stock. Following the IPO, subject to the receipt of a favorable ruling from the Internal Revenue Service expected in 1996 and the completion or termination of the acquisition of Southern Pacific, UPC intends to distribute the remaining common stock of Resources on a tax-fee basis pro rata to the Corporation's shareholders.

The IPO of 42.5 million shares was completed on October 17, 1995 and was priced at $21 per share. UPC sold 17.1% of Resources' outstanding common shares to the public generating net proceeds of $844 million. Resources now owns and operates all of the Corporation's natural resources business historically owned and or operated by Union Pacific Resources Company or other affiliates. Following the IPO, Resources dividended to UPC $1,562 million ($912 million in cash and $650 million in notes bearing interest at 8.5% per annum payable within 90 days of the distribution of UPC's remaining investment in Resources to its shareholders) and an intercompany balance of $59 million. UPC used the cash proceeds from the Resources' dividend to repay outstanding commercial paper balances.

Resources' results have been reported as a discontinued operation in the Corporation's condensed consolidated financial statements for all periods presented. Operating revenues for Resources were $332 million for the third quarter and $989 million for the first nine months of 1995, and $1.31 billion and $1.32 billion for the years 1994 and 1993, respectively. Resources' capital expenditures were $536 million for the first nine months of 1995, $613 million for the year 1994 and $507 million for the year 1993. Resources net income was $77 million and $76 million for the three months ended September 30, 1995 and 1994, respectively, and was $212 million and $303 million for the nine months ended September 30, 1995 and 1994, respectively.

Sale of USPCI, Inc. (USPCI): At year-end 1994, the Corporation completed the sale of USPCI to Laidlaw Inc. for $225 million in notes which were subsequently collected in January 1995. The sale resulted in a net loss of $412 million in 1994, including an $8 million net loss from USPCI's operations during the year. The initial provision for discontinued operations was recorded in September 1994.

5. Tax Settlement - In January 1995, UPC recorded the effects of a tax settlement with the Internal Revenue Service that allowed part of the excess acquisition costs (goodwill) associated with the acquisition of Overnite Transportation Company (Overnite) to become tax deductible. This one-time tax benefit reduced goodwill and deferred income taxes payable by $123 million and decreased ongoing goodwill amortization by $4 million annually.

6. Wilmington Sale - In March 1994, Resources sold its interest in the Wilmington, California oil field's surface rights and hydrocarbon reserves, and its interest in the Harbor Cogeneration Plant, to the City of Long Beach, California for $405 million in cash and notes. The Wilmington sale resulted in a $184 million ($116 million after-tax) gain--$159 million ($100 million after-tax) at Resources, included in income from discontinued operations, and $25 million ($16 million after-tax) at Union Pacific Railroad Company.

7. Price Risk Management - The Corporation uses derivative financial instruments to protect against unfavorable fuel price movements, interest rate movements and foreign currency exchange risk. While the use of these hedging arrangements limits the downside risk of adverse price and rate movements, it may also limit future gains from favorable movements. All hedging is accomplished pursuant to exchange-traded contracts or master swap agreements generally based on standard forms. UPC does not hold or issue financial instruments for trading purposes. The Corporation addresses market risk by selecting instruments with value fluctuations that 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 largest credit risk associated with any of the Corporation's counterparties was $30 million at September 30, 1995.

Fuel: At September 30, 1995, the Railroad (the combined railroad system of Union Pacific Railroad Company, Missouri Pacific Railroad Company and CNW) had hedged approximately 6% of its remaining 1995 diesel fuel consumption at an average price of $0.49 per gallon, while Overnite had no fuel purchase hedging agreements in place. At the end of the third quarter, the Railroad had an unrecognized mark-to-market gain of $150,000 related to its fuel hedging arrangements.

Interest Rates and Foreign Currency: UPC has outstanding interest rate swaps on $222 million of notional principal amount of debt. The interest rates paid on these instruments range from 6.0% to 9.6%, while interest received ranges from 4.3% to 6.6% with spreads no greater than 3.3%. These contracts mature over the next one to nine years. In addition, the Corporation has currency swaps in place to cover $59 million of notional principal amount of debt denominated in yen. These swaps mature over the next one to five years. At the end of the third quarter, the Corporation had a mark-to-market gain of $29 million related to these instruments.

8. **Ratio of Earnings to Fixed Charges** - The ratio of earnings to fixed charges has been computed on a total enterprise basis. Earnings represent income from continuing operations less equity in undistributed earnings of unconsolidated affiliates, plus income taxes and fixed charges. Fixed charges represent interest, amortization of debt discount and expense, and the estimated interest portion of rental charges.

9. **Commitments and Contingencies** - There are various lawsuits pending against the Corporation and certain of its subsidiaries. The Corporation is also subject to Federal, state and local environmental laws and regulations and 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 Corporation has recorded a liability. In addition, the Corporation has entered into commitments and provided guarantees for specific financial and contractual obligations of its subsidiaries and affiliates. The Corporation does not expect that the lawsuits, environmental costs, commitments or guarantees will have a material adverse effect on its consolidated financial condition or its results of operations.

   Management does not anticipate that the ultimate resolution of the matters described in Part I, Item 3. Legal Proceedings of the Corporation's 1994 Annual Report on Form 10-K and in Part II, Item 1. Legal Proceedings in this Report will have a material adverse effect on the Corporation's consolidated financial condition or operating results.

10. **Accounting Pronouncements** - The Financial Accounting Standards Board (FASB) has issued Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which establishes methods for determining and measuring an impairment of long-lived assets. Adoption of Statement 121 is required in 1996. Although the Corporation is still evaluating Statement 121, UPC does not expect that the adoption of Statement 121 will have a material adverse effect on the Corporation's operating results or financial condition. In addition, the FASB has issued Statement No. 123 "Accounting for Stock-Based Compensation," which requires certain disclosures about costs associated with stock-based employee compensation plans. Adoption of Statement 123 is required in 1996 and will not significantly impact the Corporation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CORPORATE REORGANIZATION

Natural Resources Divestiture - Union Pacific Corporation (UPC or the Corporation) completed its initial public offering (IPO) of Union Pacific Resources Group Inc. (Resources) (formerly UPC's natural resources business unit) common shares on October 17, 1995. The IPO was priced at $21 per share and was comprised of 37 million common shares with an option for underwriters to purchase 5.5 million additional common shares within 30 days (the overallotment option), which was exercised. Including the overallotment option, UPC sold 17.1% of Resources' common shares to the public. Net proceeds from the IPO totaled $844 million (including the overallotment option)(see Note 4 to the condensed consolidated financial statements). Following the IPO, Resources dividended to UPC $1,562 million ($912 million in cash and $650 million in notes bearing interest at 8.5% per annum payable within 90 days of the distribution of UPC's remaining investment in Resources to its shareholders) and an intercompany balance of $59 million. UPC used the cash proceeds from the Resources' dividend to repay outstanding commercial paper balances.

Southern Pacific Rail Corporation (Southern Pacific) Acquisition - As part of the announced acquisition of Southern Pacific, UPC commenced a first-step cash tender offer (which was completed on September 15, 1995) acquiring approximately 39.03 million common shares or 25% of the outstanding common shares of Southern Pacific at a price of $25.00 per share. UPC borrowed $976 million under its existing credit facilities to fund the cash tender offer. Shares purchased under the cash tender offer were deposited in an independent voting trust in accordance with a voting trust agreement with Southwest Bank of St. Louis. Such shares shall remain in the voting trust pending a decision of the Interstate Commerce Commission (the ICC) on the Southern Pacific acquisition (see Note 2 to the condensed consolidated financial statements). The ICC has adopted an expedited schedule pursuant to which it will render a final decision within 255 days of the filing of an application with respect to the Southern Pacific acquisition. Such an application is expected to be filed on December 1, 1995. Should the acquisition of Southern Pacific not be approved by the ICC or its successors, UPC could incur a significant loss on the disposal of its investment in Southern Pacific. However, the Corporation believes that its application for common control of the Southern Pacific will be approved.

Chicago and North Western Transportation Company (CNW) - On March 16, 1995, the Corporation executed a definitive merger agreement to acquire the remaining 71.6% of CNW's outstanding common stock not previously owned by UPC for $1.2 billion. Under this agreement, UPC initiated a cash tender offer on March 23, 1995 for all outstanding CNW shares at $35 per share, which was completed on April 25, 1995. The acquisition of CNW has been accounted for as a purchase and CNW's financial results have been consolidated into UPC effective May 1, 1995 (see Note 3 to the condensed consolidated financial statements).

RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 30, 1995 COMPARED TO SEPTEMBER 30, 1994

Consolidated Results
UPC reported net income of $237 million ($1.15 per share) in the third quarter of 1995 compared to a net loss of $213 million ($1.04 per share) for the same period a year ago. Results for 1994 included a provision for a loss on disposal of the Corporation's waste management subsidiary of $423 million (see Note 4 to the condensed consolidated financial statements).

Results of Continuing Operations
Consolidated - The Corporation reported income from continuing operations of $160 million ($0.78 per share) in the third quarter of 1995, a 19% improvement from last year's results of $134 million ($0.65 per share). Earnings for 1995 benefitted from improved earnings at Union Pacific Railroad Company and other rail subsidiaries (the Railroad), due to the addition of CNW and improved operating results, while Overnite Transportation Company's (Overnite) results declined significantly from a year ago.

Operating revenues grew 22% to $1.97 billion, as higher volumes and improved average revenue per car at the Railroad were partly offset by volume and average price declines at Overnite. Operating expenses rose $300 million to $1.60 billion for the quarter. The addition of CNW and inflation contributed to higher salaries, wages and employee benefits ($111 million), equipment and other rental expense ($49 million), fuel costs ($28 million) and materials and supplies ($12 million). Depreciation expense rose $36 million from the CNW fixed assets acquired, as well as from the Corporation's continuing capital investment programs. In addition, maintenance, repairs and foreign-line car repair costs increased $21 million and other taxes increased $9 million, primarily as a result of the consolidation of CNW results. Personal injury costs were also up $9 million, reflecting higher claims costs, while third-party transportation costs rose $8 million.

Operating income increased $52 million (16%) to $379 million for the quarter, largely reflecting improved operating results at the Railroad. Other income improved $25 million, mainly from increased property sales and interest on a favorable tax settlement at the Railroad. Interest expense rose $41 million, reflecting higher debt levels associated with the CNW acquisition and the Southern Pacific cash tender offer and higher short-term interest rates, offset by the receipt in the first quarter of 1995 of proceeds relating to the sale of the Corporation's waste management business unit. Corporate expenses declined $9 million, primarily due to lower professional fees.

Railroad - The Railroad earned $222 million in the third quarter of 1995, up $38 million (21%) from last year, reflecting the addition of CNW volumes and pricing improvements.

Revenues improved $354 million (27%) to $1.68 billion, as the addition of CNW business of $307 million combined with a 7% improvement in average revenue per car, reflecting a longer average length of haul and favorable traffic mix shifts. Carloadings improved 16% in the third quarter of 1995, largely due to incremental volumes from the acquisition of CNW and business expansion. Grain and metals and minerals carloadings in particular benefitted from the addition of the strong CNW volume base. Grain carloadings led the way with a 93% improvement over last year, reflecting not only the addition of CNW volumes, but also carloadings improvements caused by greater export demand. Metals and minerals carloadings rose 47% as CNW volumes were partly offset by weakness in stone and non-metallic mineral volumes. Autos rose 24% from the addition of CNW volumes and strong Mexican business for both finished vehicles and auto parts. Forest products were up 22% as CNW volumes were partially offset by depressed lumber and paper volumes. Chemical carloadings improved 10% as additional CNW volumes were partially offset by lower fertilizer and plastic business. Energy carloadings rose 10% due to the addition of CNW volumes and increased traffic out of the Southern Powder River Basin. Intermodal volumes decreased 6%, reflecting softening economic conditions in the U.S. and Mexico, competition from trucking companies with excess capacity, and selective avoidance of low-margin business, while food/consumer/government carloadings declined 3%.

Operating expenses for the quarter rose $269 million to $1.29 billion. Incremental CNW volumes and inflation were the principal reasons causing increases in salaries, wages and employee benefits ($89 million), rent expense ($48 million), fuel and utilities costs ($27 million) and materials and supplies expense ($12 million). Depreciation climbed $36 million, reflecting continuing capital investment programs and the addition of depreciation for CNW properties. In addition, maintenance, repairs and foreign-line car repair costs increased $21 million and other taxes increased $9 million, primarily as a result of the consolidation of CNW, while personal injury expense increased $9 million. Expenses also increased as a result of the absence of flood insurance recoveries in 1994 ($12 million) and merger related increases in employee relocation costs, crew hauling and contracted expenses.

Operating income improved $85 million (28%) to $389 million for the quarter, while the operating ratio improved to 76.9 from 77.1 last year.

Trucking - Overnite's operating environment has been extremely difficult in the first nine months of 1995. The major factors impacting Overnite's operations were soft volumes caused by aggressive marketing and price competition by both less-than-truckload (LTL) and truckload carriers, a slow economy, incremental expenses associated with Overnite's continuing battle over unionization with the Teamster's Union and ongoing operational inefficiencies associated with shifts in freight flows from shorter-haul, higher-margin, intra-regional business to longer-haul traffic. These unfavorable operating trends will likely continue throughout 1995 and into 1996, as Overnite works toward tailoring its organization to meet its changing business environment, and attempts to regain lost shorter-haul business and to better balance traffic lanes. A significant factor influencing Overnite's long-ter success is its ability to maintain a non-unionized work force. Overnite has had several challenges from organized labor in 1995. Since January 1, 1995, over 50 of Overnite's 174 terminals were petitioned to hold union elections, twelve of which voted for union representation. Overnite has won each of the last 10 such elections, and 22 of the last 26 elections. Despite the Teamsters' efforts, less than 9% of Overnite's work force has voted for union representation.

As a result of the difficult operating environment discussed above, Overnite reported a $7 million net loss in the third quarter of 1995 compared to $12 million of earnings last year. Results include goodwill amortization of $5 million in 1995, $1 million less than last year as a result of a favorable tax settlement related to the deductibility of intangible assets (see Note 5 to the condensed consolidated financial statements).

Operating revenues declined $12 million (5%) for the quarter to $245 million. Volumes were down 3%, while average prices declined 2%. Operating expenses increased $19 million to $255 million. Salaries, wages and employee benefit costs increased $16 million caused by wage and benefit inflation, while depreciation and equipment rents each increased $1 million. Overnite recorded an operating loss of $10 million for the third quarter of 1995 compared to operating income of $21 million last year, as the operating ratio, including goodwill amortization, increased to 104.0 from 91.6 last year.

Corporate Services and Other Operations - Expenses related to Corporate Services and Other Operations (comprising corporate expenses, third-party interest charges, intercompany interest allocations, other income and income taxes not related to other segments, and the results of other operating units) declined $7 million to $55 million for the third quarter. The decrease was largely the result of lower professional fees caused by the absence of strategic transactions pursued in 1994. Other operating units broke even for the third quarter of 1995 compared to 1994 when other operations generated operating income of $2 million for the quarter.

Results of Discontinued Operations
Income from discontinued operations increased $424 million to $77 million for the quarter, reflecting the absence of the write down of UPC's waste management unit in September 1994 and a slight improvement in Resources' results.

Natural Resources - Resources' third quarter 1995 earnings rose $1 million from a year ago to $77 million. Operating revenues declined $22 million (6%) to $332 million. Producing properties revenues declined $13 million as the effects of a 13% decline in average per barrel prices (led by a 21% decline in average natural gas prices) and lower crude oil volumes (the result of the sale of the Point Arguello field and volume declines in the Austin Chalk) was only partially offset by a 21% increase in average natural gas sales volumes (mainly volume improvements in the Austin Chalk and the Ozona fields) and an 18% improvement in average natural gas liquids sales volumes. Plants, pipelines and marketing revenues climbed $8 million, largely the result of the start up of the Wahsatch pipeline and the expansion of the Panola pipeline. Other oil and gas revenues declined $15 million due to lower property sales.

Operating expenses for the quarter declined $20 million to $233 million. Production costs declined $19 million, largely due to a favorable production tax settlement. Exploration costs fell $6 million as a result of lower dry hole costs (reflecting the de-emphasis of exploration in a low price environment). These costs improvements were partially countered by a $6 million increase in depreciation costs, the result of higher production levels. Operating income declined $2 million from $101 million a year earlier.

NINE MONTHS ENDED SEPTEMBER 30, 1995 COMPARED TO SEPTEMBER 30, 1994

Consolidated Results
The Corporation's net income for the first nine months of 1995 was $652 million ($3.17 per share) compared to $290 million ($1.41 per share) for the same period of 1994. Results for 1994 included a $433 million loss from the discontinuation of UPC's waste management business unit and the benefit of a one-time $116 million ($0.56 per share) after-tax gain resulting from the sale of the Wilmington field (see Note 6 to the condensed consolidated financial statements).

Results of Continuing Operations

Consolidated - Income from continuing operations improved $20 million (5%) for the period to $440 million ($2.14 per share), as a $113 million improvement at the Railroad was partially offset by higher corporate expenses and a $56 million earnings decline at Overnite. Consolidated operating revenues increased $675 million (14%) to $5.51 billion for the period as the Railroad's operating revenue improvement of $692 million (reflecting the acquisition of CNW, increased base carloadings and a higher average revenue per car) was partially countered by lower operating revenues at Overnite.

Consolidated operating expenses rose $611 million to $4.52 billion. CNW results, rail volume growth and inflation caused increases in salaries, wages and employee benefits ($268 million), equipment and other rents ($77 million), fuel costs ($60 million), materials and supplies ($14 million) and third-party transportation ($13 million). Depreciation charges were up $67 million as a result of the CNW properties acquired and the Corporation's continuing capital investment programs. Other increases occurred in cost of real estate sold ($17 million) resulting from higher sales activity; contracted maintenance and transportation costs ($26 million) and real estate taxes ($15 million), reflecting the addition of CNW; personal injury costs ($16 million) as a result of higher claims costs; insurance costs ($12 million) due to the absence of 1994 flood insurance recoveries and professional fees ($7 million).

Consolidated operating income advanced $64 million (7%) to $995 million for the first nine months of 1995, reflecting a $149 million improvement at the Railroad partially offset by weaker operating results at Overnite. Other income increased $40 million from higher gains on property sales and interest associated with the third quarter Railroad Retirement Tax claim settlement. Interest expense rose $73 million, principally from the higher debt levels associated with the CNW acquisition and Southern Pacific tender offer. Corporate expenses were up $12 million, resulting from higher executive compensation accruals and the absence of 1994 stock appreciation rights credits.

CHANGES IN CONSOLIDATED FINANCIAL CONDITION

Cash from continuing operations for the first nine months of 1995 was $1,121 million, up $261 million from a year ago, as a result of improvements in operating results and higher non-cash expenses (mainly depreciation, casualty accruals and deferred taxes).

Cash used in investing activities increased $1.32 billion to $2.39 billion for the period. In 1995, the Corporation used $1,170 million to finance the acquisition of CNW and $976 million to fund the Southern Pacific cash tender offer. These increased investments were partially countered by the receipt of $225 million in proceeds from the sale of UPC's waste management unit, the absence of the $725 million acquisition of Amax Oil & Gas, Inc. in 1994 and slightly lower capital spending. Financing activities increased $913 million as UPC incurred incremental debt to finance its acquisition activities.

The ratio of debt to debt plus equity increased to 56.5% at September 30, 1995 compared to 46.6% at December 31, 1994. This increase resulted from increased debt levels caused by the purchase of CNW and Southern Pacific shares, partly mitigated by 1995 earnings and the proceeds from the sale of UPC's waste management business.

OTHER DEVELOPMENTS

Commitments and Contingencies - There are various lawsuits pending against the Corporation and certain of its subsidiaries. The Corporation is also subject to Federal, state and local environmental laws and regulations and 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 Corporation has recorded a liability. In addition, the Corporation has entered into commitments and provided guarantees for specific financial and contractual obligations of its subsidiaries and affiliates. The Corporation does not expect that the lawsuits, environmental costs, commitments or guarantees will have a material adverse effect on its consolidated financial condition or its results of operations.

Accounting Pronouncements - The Financial Accounting Standards Board (FASB) has issued Statement No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which establishes methods for determining and measuring an impairment of long-lived assets. Adoption of Statement 121 is required in 1996. Although the Corporation is still evaluating Statement 121, UPC does not expect that the adoption of Statement 121 will have a material adverse effect on the Corporation's operating results or financial condition. In addition, the FASB has issued Statement No. 123 "Accounting for Stock-Based Compensation," which requires certain disclosures about costs associated with stock-based employee compensation plans. Adoption of Statement 123 is required in 1996 and will not significantly impact the Corporation.

PART II. OTHER INFORMATION

Item 1. **Legal Proceedings**

In 1993, the Railroad entered into an Administrative Order on Consent with the Environmental Protection Agency (EPA) and the State of Utah to remove lead contaminated soil from property that had been leased to a battery recycler in the early 1980s. The Order called for completion of the removal action by September 15, 1994. However, because of various logistical problems, the work was not completed until October 18, 1994. Because the Order contained a provision requiring that stipulated penalties be paid for each day that work continued beyond the deadline, the EPA demanded $160,000 as a stipulated penalty payment. The Railroad initiated dispute resolution and settled this matter for $120,000, $90,000 of which was reimbursed by the contractor responsible for the delays.

As previously reported in the Corporation's Form 10-Q for the quarter ended June 30, 1995, in July 1995 the Butte County (Oroville, California) District Attorney advised that a civil penalty action would be filed against the Railroad for violations resulting from a derailment and spill of diesel fuel into the Feather River in Peo, California on April 14, 1995. In late July the California Regional Water Quality Control Board also filed a separate penalty action seeking $40,000 for the same incident. This latter action was settled for $40,000. A further demand for penalties from the California Department of Fish and Game is expected but not determinable at this time.

As previously reported in the Corporation's Form 10-K for the year ended December 31, 1994, 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 totaling $330,000. Following discussions with the EPA and following the purchase of AMAX Oil & Gas, Inc. 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 paid a penalty of $84,000 in settlement of this matter.

Item 6. **Exhibits and Reports on Form 8-K**

(a) **Exhibits**

(10)(a) - Executive Incentive Plan of Union Pacific Resources Group Inc. is incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 (No. 33-95398) filed by Union Pacific Resources Group Inc.

(10)(b) - 1995 Stock Option and Retention Stock Plan of Union Pacific Resources Group Inc. is incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 (No. 33-95398) filed by Union Pacific Resources Group Inc.

(10)(c) - Form of Conversion Agreement is incorporated by reference to Exhibit 10.13(a) to the Registration Statement on Form S-1 (No. 33-95398) filed by Union Pacific Resources Group Inc.

(10)(d) - Conversion Agreement for Drew Lewis.

(10)(e) - Conversion Agreement for Jack L. Messman.

(11) - Computation of earnings per share.

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

(27) - Financial data schedule.

(b) Reports on Form 8-K

On August 14, 1995, the Corporation filed a Current Report on Form 8-K, announcing the execution of a definitive merger agreement and certain other agreements related to the acquisition of Southern Pacific Rail Corporation.

On September 15, 1995, the Corporation filed a Current Report on Form 8-K, announcing the final proration factor with respect to the tender offer for Southern Pacific Rail Corporation common stock.

SIGNATURE

Pursuant to the requirements 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.

Dated: November 9, 1995

UNION PACIFIC CORPORATION
(Registrant)

/s/ M. B. Smith

M. B. Smith,
Vice President and Controller
(Chief accounting officer
and duly authorized officer)

UNION PACIFIC CORPORATION

EXHIBIT INDEX

Exhibit No.	Description
(10)(a)	Executive Incentive Plan of Union Pacific Resources Group Inc. is incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 (No. 33-95398) filed by Union Pacific Resources Group Inc.
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(11)	Computation of earnings per share.
(12)	Computation of ratio of earnings to fixed charges.
(27)	Financial data schedule.

Exhibit 10(d)

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONVERSION AGREEMENT

September 29, 1995

Mr. Drew Lewis:

Dear Mr. Lewis:

This Letter Agreement will evidence your agreement with Union Pacific Resources Group Inc. (the "Company") and Union Pacific Corporation ("UPC") to convert certain stock options ("UPC Stock Options") which have been awarded to you under one or more of the following: the 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation, the 1988 Stock Option and Restricted Stock Plan of Union Pacific Corporation and/or the 1982 Stock Option and Restricted Stock Plan of Union Pacific Corporation (collectively, "UPC Plans"). In exchange for your surrender of UPC Stock Options, you will receive, in accordance with the terms and conditions set forth below, a grant of non-qualified stock options for Common Stock of the Company ("Common Stock") under the 1995 Stock Option and Retention Stock Plan of the Company (the "1995 Stock Option Plan"), a copy of which is attached hereto and made a part hereof.

1. CONVERSION OF OPTIONS. In accordance with the 1995 Stock Option Plan, you hereby agree to surrender to UPC all your rights under and interests in the UPC Options below in exchange for a grant from the Company of stock options ("Rollover Options") under the 1995 Stock Option Plan upon completion of the "Offerings" (described in the Preliminary Prospectus dated September 12, 1995). Please indicate by marking the box below all UPC Options that will be converted pursuant to the terms of this Agreement.

UPC Options

	Date Of Grant	Number of Shares	Exercise Price	NQ	Date of Conversion
☐	12/15/94	116,666*	$47.00	NQ	IPO Date

* 58,333 shares become exercisable on 12/15/96
58,333 shares become exercisable on 12/15/97

2. <u>NUMBER AND EXERCISE PRICE OF ROLLOVER OPTIONS.</u> All Rollover Options will be non-qualified stock options. The exercise price of the Rollover Options is based on a formula utilizing the initial public offering price of the Common Stock in the Offerings ("IPO Price"). The exercise price applicable to each IPO Rollover Option will be the product of (i) the IPO Price (the "Company Calculation Price"), and (ii) the ratio of the per-share exercise price of the applicable UPC Option to the Fair Market Value (as defined below) of common stock, $2.50 par value, of Union Pacific Corporation ("UPC Common Stock") on the date of commencement of the Offerings ("UPC Calculation Price"). Each IPO Rollover Option issued upon such exchange will entitle the holder to purchase the number of shares of Common Stock obtained by multiplying the number of shares of UPC Common Stock underlying the applicable UPC Option by a fraction, the numerator of which is the spread between the exercise price of the applicable UPC Option and the UPC Calculation Price, and the denominator of which is the spread between the exercise price of the Rollover Option and the Company Calculation Price. Exercise prices will be rounded to the nearest cent, or down if there is no nearest cent. The "Fair Market Value" of UPC Common Stock shall be the average of the high and low trading prices (regular way) of shares of UPC Common Stock as reported in *The Wall Street Journal* listing of consolidated trading on the New York Stock Exchange. No Rollover Options to purchase fractional shares of Common Stock will be granted. All fractions of shares of Common Stock subject to Rollover Options will be rounded up to the next whole number. Until the date that your UPC Options are converted to Rollover Options, you may exercise any UPC Options that are exercisable on the date of such exercise.

3. <u>DURATION AND EXERCISE OF THE OPTIONS.</u> The Rollover Options shall be exercisable upon the terms and conditions of the 1995 Stock Option Plan, as supplemented by this Agreement, and not otherwise. As provided in the 1995 Stock Option Plan, the vesting and expiration of Rollover Options shall be determined as if the grant date were the date upon which the original UPC Options were granted under the UPC Plans. The term of each Rollover Option shall be a period ending at the close of business on the tenth anniversary of the date of grant of the original UPC Option for which such Rollover Option was exchanged, subject to earlier termination as provided below. The Rollover Options must be exercised in portions of not less than 100 shares, or any integral multiple thereof, except

to complete the exercise of any Rollover Option. The Rollover Options are also subject to forfeiture in the event of your termination of employment or death, as contemplated in paragraphs (h) and (i) of Section 6 of the 1995 Stock Option Plan, except that any termination of your service as a director of the Company, other than a termination for gross misconduct, shall be deemed to be a "retirement under the provisions of the Company's or a subsidiary's pension plan.".

4. **METHOD OF EXERCISE.** The Rollover Options may be exercised, during your lifetime, only by you. Exercise of the Rollover Options shall be by appropriate written notice delivered to the Secretary of the Company, at its principal business office, (a) accompanied by a check payable to the order of the Company; or (b) accompanied by shares of previously acquired Common Stock owned by you, to the extent that such payment does not require the surrender of a fractional share of such previously acquired stock, for the shares to be purchased; or (c) if you are then eligible, through the withholding of shares equal to the exercise price.

5. **APPLICABILITY OF THE PLAN.** This Agreement and the Rollover Options granted hereunder are subject to all of the terms and conditions of the 1995 Stock Option Plan and may not be assigned or transferred, except by will or the laws of descent and distribution in the case of the death of an optionee, as provided in paragraph (i) of Section 6 of the 1995 Stock Option Plan.

6. **WITHHOLDING TAXES.** Upon exercise of a non-qualified Rollover Option, you must arrange for the payment to the Company of all applicable withholding taxes resulting from such exercise promptly after you have been notified of the amount thereof by the Secretary of the Company. Shares will be withheld to pay withholding taxes if you have made a proper election to pay withholding taxes in this manner.

To confirm your acceptance of the foregoing, kindly sign and promptly return one copy of this Letter Agreement to the Company.

Sincerely,

UNION PACIFIC RESOURCES GROUP INC.

By /s/ Drew Lewis
President and Chief Executive Officer

UNION PACIFIC CORPORATION

By /s/ Ursula F. Fairbairn
Senior Vice President - Human Resources

Accepted:

/s/ Drew Lewis
Participant

Date: October 2, 1995

Exhibit 10(f)

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONVERSION AGREEMENT

September 29, 1995

Mr. Jack L. Messman

Dear Mr. Messman:

This Letter Agreement will evidence your agreement with Union Pacific Resources Group Inc. (the "Company") and Union Pacific Corporation ("UPC") to convert certain incentive stock options ("ISO's") and/or non-qualified stock options (collectively, "UPC Stock Options") and/or restricted stock and retention stock ("UPC Retention Shares") which have been awarded to you under one or more of the following: the 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation, the 1990 Retention Stock Plan of Union Pacific Corporation, the 1988 Stock Option and Restricted Stock Plan of Union Pacific Corporation and/or the 1982 Stock Option and Restricted Stock Plan of Union Pacific Corporation (collectively, "UPC Plans"). In exchange for your surrender of UPC Stock Options and/or UPC Retention Shares, you will receive, in accordance with the terms and conditions set forth below, a grant of ISOs, non-qualified stock options, and/or an award of retention shares of Common Stock of the Company ("Common Stock") under the 1995 Stock Option and Retention Stock Plan of the Company (the "1995 Stock Option Plan"), a copy of which is attached hereto and made a part hereof.

1. CONVERSION OF OPTIONS AND RETENTION SHARES. In accordance with the 1995 Stock Option Plan, you hereby agree to surrender to UPC all your rights under and interests in the UPC Options and/or UPC Retention Shares designated below in exchange for a grant or award from the Company of stock options ("Rollover Options") and/or retention stock ("Rollover Retention Shares") under the 1995 Stock Option Plan either upon completion of the "Offerings" (described in the Preliminary Prospectus dated September 12, 1995) or, in the case of certain Rollover Options granted in exchange for UPC Options that are ISOs, upon consummation of the "Distribution" (the distribution of Union Pacific Corporation's remaining ownership interest to its stockholders). The following

UPC ISOs will be converted to Company ISOs upon consummation of the Distribution:

UPC ISOs

Date of Grant	Number of Shares	Exercise Price
09/26/91	2,000	$46.61
09/24/92	1,700	54.13
11/18/93	1,500	63.75
12/15/94	6,000	47.00

Please indicate by marking the box(s) below all other UPC Options and UPC Retention Shares that will be converted pursuant to the terms of this Agreement.

UPC Options

	Date of Grant	Number of Shares	Exercise Price	ISO* or NQ	Date of Conversion
☐	09/26/91	18,000	$46.66	NQ	IPO Date
☐	09/24/92	38,300	54.13	NQ	IPO Date
☐	11/18/93	38,500	63.75	NQ	IPO Date
☐	12/15/94	144,000	47.00	NQ	IPO Date

* ISOs convert to NQs on IPO Date.

UPC Retention Shares

	Date of Grant	Number of Shares	Date of Conversion
☐	11/18/93	40,000	IPO Date
☐	12/15/94	40,000	IPO Date

OPTIONS

2. NUMBER AND EXERCISE PRICE OF ROLLOVER OPTIONS. Rollover Options granted upon the completion of the Offerings will be non-qualified stock options, even if the UPC Options surrendered for exchange are ISO'S. Rollover Options granted on the consummation of the Distribution in exchange for UPC Options that are ISOs will be ISOs. The exercise price of the Rollover Options to be granted in exchange for UPC Options upon completion of the Offerings ("IPO Rollover Options") is based on a formula utilizing the initial public offering price of the Common Stock in the Offerings ("IPO Price"). The exercise price applicable to each IPO Rollover Option will be the product of (i) the IPO Price (the "Company Calculation Price"), and (ii) the ratio of the per-share exercise price of the applicable UPC Option to the Fair Market Value (as defined below) of common stock, $2.50 par value, of Union Pacific Corporation ("UPC Common Stock")

on the date of commencement of the Offerings ("UPC Calculation Price"). Each IPO Rollover Option issued upon such exchange will entitle the holder to purchase the number of shares of Common Stock obtained by multiplying the number of shares of UPC Common Stock underlying the applicable UPC Option by a fraction, the numerator of which is the spread between the exercise price of the applicable UPC Option and the UPC Calculation Price, and the denominator of which is the spread between the exercise price of the Rollover Option and the Company Calculation Price. The exercise price and number of Rollover Options to be granted in exchange for UPC Options at the date the Distribution is effected ("Distribution Rollover Options") will be calculated in the same manner as the exercise price and number of IPO Rollover Options, except that the UPC Calculation Price will be the Fair Market Value of UPC Common Stock on the last day that purchasers in regular way trading in UPC Common Stock would receive the right to Common Stock in the Distribution (the "Distribution Date") and the Company Calculation Price shall be the Fair Market Value of Common Stock on the Distribution Date. Exercise prices will be rounded to the nearest cent, or down if there is no nearest cent. The "Fair Market Value" of either UPC Common Stock or Common Stock shall be the average of the high and low trading prices (regular way) of shares of UPC Common Stock or Common Stock, as the case may be, as reported in *The Wall Street Journal* listing of consolidated trading on the New York Stock Exchange. No Rollover Options to purchase fractional shares of Common Stock will be granted. All fractions of shares of Common Stock subject to Rollover Options will be rounded up to the next whole number, except in the case of Rollover Options that are ISO's, which will be rounded down to the nearest whole number. Until the date that your UPC Options are converted to Rollover Options, you may exercise any UPC Options that are exercisable on the date of such exercise. In the event that the Distribution does not occur prior to December 31, 1996, the UPC Options to be exchanged on the Distribution Date will not be so exchanged, and no Rollover Options will be granted pursuant hereto in exchange for such UPC Options.

3. <u>DURATION AND EXERCISE OF THE OPTIONS.</u> The Rollover Options shall be exercisable upon the terms and conditions of the 1995 Stock Option Plan, as supplemented by this Agreement, and not otherwise. As provided in the 1995 Stock Option Plan, the vesting and expiration of Rollover Options shall be determined as if the grant date were the date upon which the original UPC Options were

granted under the UPC Plans. The term of each Rollover Option shall be a period ending at the close of business on the tenth anniversary of the date of grant of the original UPC Option for which such Rollover Option was exchanged, subject to earlier termination as provided in the 1995 Stock Option Plan. The Rollover Options must be exercised in portions of not less than 100 shares, or any integral multiple thereof, except to complete the exercise of any Rollover Option. The Rollover Options are also subject to forfeiture in the event of your termination of employment or death, as contemplated in paragraphs (c), (d) and (e) of Section 8 of the 1995 Stock Option Plan, as it relates to an ISO, and (h) and (i) of Section 6 of the 1995 Stock Option Plan, as it relates to a non-qualified Rollover Option.

4. **METHOD OF EXERCISE.** The Rollover Options may be exercised, during your lifetime, only by you. Exercise of the Rollover Options shall be by appropriate written notice delivered to the Secretary of the Company, at its principal business office, (a) accompanied by a check payable to the order of the Company; or (b) accompanied by shares of previously acquired Common Stock owned by you, to the extent that such payment does not require the surrender of a fractional share of such previously acquired stock, for the shares to be purchased; or (c) if you are then eligible, through the withholding of shares equal to the exercise price.

5. **APPLICABILITY OF THE PLAN.** This Agreement and the Rollover Options granted hereunder are subject to all of the terms and conditions of the 1995 Stock Option Plan and may not be assigned or transferred, except by will or the laws of descent and distribution in the case of the death of an optionee, as provided in paragraph (d) of Section 8 and paragraph (i) of Section 6 of the 1995 Stock Option Plan.

6. **WITHHOLDING TAXES.** Upon exercise of a non-qualified Rollover Option, you must arrange for the payment to the Company of all applicable withholding taxes resulting from such exercise promptly after you have been notified of the amount thereof by the Secretary of the Company. Shares will be withheld to pay withholding taxes if you have made a proper election to pay withholding taxes in this manner.

RETENTION SHARES

7. **CONVERSION OF SHARES.** You hereby agree to surrender each UPC Retention Share indicated in paragraph 1 of this Letter Agreement in exchange for Rollover Retention Shares on the closing date of the Offerings. The number of Rollover Retention shares to be issued will equal the number of UPC Retention Shares surrendered multiplied by a fraction, the numerator of which is the UPC Calculation Price and the denominator of which is the Company Calculation Price. Any fraction of a Rollover Retention Share will be rounded up to a whole Rollover Retention Share.

8. **RESTRICTION PERIOD.** The periods during which the restrictions set forth herein and in the 1995 Stock Option Plan shall apply to the Rollover Retention Shares granted to you shall commence on the date hereof and expire on the same dates as the restrictions on the UPC Retention Shares exchanged for such Rollover Retention Shares would have expired unless any period is sooner terminated under provisions of the 1995 Stock Option Plan (the "Restriction Periods").

9. **RESTRICTIONS.** At the time of the above award of Rollover Retention Shares to you, a certificate representing the number of shares of Common Stock awarded shall be registered in your name but shall be held by the Company for your account. You shall have the entire beneficial ownership interest in, and all rights and privileges of a stockholder as to, such Rollover Retention Shares, including the right to vote such Rollover Retention Shares, subject to the following restrictions: (i) the Company will withhold all dividends paid on such Rollover Retention Shares during the applicable Restriction Periods; (ii) subject to Section 9(c) of the 1995 Stock Option Plan, you shall not be entitled to delivery of the stock certificate until the expiration of the applicable Restriction Period; (iii) none of the Rollover Retention Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the applicable Restriction Period; and (iv) all of the Rollover Retention Shares shall be forfeited and all of your rights to such Rollover Retention Shares and to the dividends withheld by the Company as described in clause (i), above shall terminate without further obligation on the part of the Company unless you remain in the continuous employment of the Company or a Subsidiary for the entire

Restriction Period, except as provided by Section 9(c) of the 1995 Stock Option Plan. Any shares of Common Stock or other securities received as a result of a transaction listed in Section 11 of the 1995 Stock Option Plan shall be subject to the same restrictions as such Rollover Retention Shares.

10. PAYMENT OF RETENTION SHARES. At the end of the applicable Restriction Period or at such earlier time as provided for in Section 9(c) of the 1995 Stock Option Plan, all restrictions applicable to the appropriate Rollover Retention Shares shall lapse, and a stock certificate for a number of shares of Common Stock equal to such number of Rollover Retention Shares, free of all restrictions, and all dividends paid on such Rollover Retention Shares during the applicable Restriction Period but withheld by the Company, shall be delivered to you or your beneficiary or estate, as the case may be.

11. ADDITIONAL TERMS AND CONDITIONS. Under the terms of the award of Rollover Retentions Shares, the Committee administering the Plan has determined that in case of retirement prior to age 65 at the request of the Company, clause (c)(i)(A)(ii) of Section 9 of the Plan shall not apply to the Rollover Retention Shares. In addition, you hereby agree that should you voluntarily terminate your employment with the Company or any subsidiary prior to December 15, 1999, for two years thereafter you will not solicit the employment of or hire any individual who is an employee of UPC, the Company or any subsidiary of either of them at the time of such termination of employment.

12. WITHHOLDING. Upon the lapse of the restrictions applicable to the Rollover Retention Shares, you must arrange for the payment to the Company of all applicable withholding taxes resulting therefrom promptly after you have been notified of the amount thereof by the Secretary of the Company. Shares will be withheld to pay withholding taxes if you do not make the election referred to below and have made a proper election to pay withholding taxes in this manner.

To confirm your acceptance of the foregoing, kindly sign and promptly return one copy of this Letter Agreement to the Company.

Sincerely,

UNION PACIFIC RESOURCES GROUP INC.

By /s/ Anne M. Franklin
Vice President - People

UNION PACIFIC CORPORATION

By /s/ Drew Lewis
Chairman and Chief Executive Officer

Accepted:

/s/ Jack L. Messman
Jack L. Messman

Date: October 8, 1995

Exhibit 11

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

COMPUTATION OF EARNINGS PER SHARE

(Amounts in Thousands, Except Per Share Amounts)
(Unaudited)

	Nine Months Ended September 30,	
	1995	1994
Average number of shares outstanding...........	204,911	205,101
Average shares issuable on exercise of stock options less shares repurchasable from proceeds....................................	857	530
Total average number of common and common equivalent shares..........................	205,768	205,631
Income from Continuing Operations.............	$440,091	$420,074
Income (Loss) from Discontinued Operations.....	211,525	(129,489)
Net Income.....................................	$651,616	$290,585
Earnings per share:		
Income from Continuing Operations...........	$ 2.14	$ 2.04
Income (Loss) from Discontinued Operations...	1.03	(0.63)
Net Income.................................	$ 3.17	$ 1.41

Exhibit 12

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Amounts in Thousands, Except Ratios)
(Unaudited)

	Nine Months Ended September 30,	
	1995	1994
Earnings:		
Income from continuing operations	$ 440,091	$420,074
Add (deduct) distributions greater (to extent less) than income of unconsolidated affiliates	(25,083)	(34,769)
Total	415,008	385,305
Income Taxes:		
Federal, state and local	251,502	252,645
Fixed Charges:		
Interest expense including amortization of debt discount	328,016	254,965
Portion of rentals representing an interest factor	38,494	31,817
Total	366,510	286,782
Earnings available for fixed charges	$1,033,020	$924,732
Fixed charges -- as above	$ 366,510	$286,782
Interest capitalized	--	125
Total fixed charges	$ 366,510	$286,907
Ratio of earnings to fixed charges	2.8	3.2

UNION PACIFIC CORPORATION
FINANCIAL DATA SCHEDULE - EXHIBIT 27
($ in millions except per share amounts)
(unaudited)

Schedule contains summary financial information extracted from the Statements of Consolidated Income and Consolidated Financial Position and is qualified in its entirety by reference to such financial statements.

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1995

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 32-62756

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

Delaware	84-1092482
(State or other jurisdiction of organization)	(I.R.S. employer identification no.)

Southern Pacific Building
One Market Plaza
San Francisco, CA 94105
Telephone Number (415) 541-1000

Indicate by checkmark 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 1995
Common stock, $.001 par value per share	156,137,884 shares

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 1995	December 31, 1994
	(in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 136.5	$ 145.6
Short-term investments	-	95.0
Accounts and notes receivable, net of allowance for doubtful accounts	150.8	178.2
Accounts receivable sales proceeds receivable	126.4	111.2
Materials and supplies, at cost	74.6	71.8
Other notes receivable	7.5	7.2
Other current assets	67.9	63.6
Total current assets	563.7	672.6
REAL ESTATE HELD FOR SALE	369.1	361.4
PROPERTY, AT COST		
Roadway and structures	2,368.5	2,204.4
Railroad equipment	1,470.6	1,013.4
Other property	315.0	309.0
Total property	4,154.1	3,526.8
Less accumulated depreciation and amortization	636.7	597.8
Property, net	3,517.4	2,929.0
OTHER ASSETS AND DEFERRED CHARGES		
Note receivable and other investments	82.7	79.2
Other assets and deferred charges	119.6	109.9
Total other assets	202.3	189.1
Total assets	$ 4,652.5	$ 4,152.1

(Continued)

See accompanying notes to consolidated condensed financial statements.

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 1995	December 31, 1994
	(in millions)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and wages payable	$ 151.4	$ 158.0
Accrued payables	160.2	169.1
Current portion of long term debt	57.0	59.5
Redeemable preference shares of a subsidiary	1.9	1.9
Other current liabilities	598.6	627.3
Total current liabilities	969.1	1,015.8
LONG-TERM DEBT	1,654.7	1,089.3
DEFERRED INCOME TAXES	224.1	223.4
OTHER LIABILITIES	725.8	744.2
REDEEMABLE PREFERENCE SHARES OF A SUBSIDIARY	20.8	20.7
STOCKHOLDERS' EQUITY		
Common stock	0.2	0.2
Additional paid-in capital	1121.8	1,116.2
Accumulated deficit	(64.0)	(57.7)
Total stockholders' equity	1,058.0	1,058.7
Total liabilities and stockholders' equity	$ 4,652.5	$ 4,152.1

See accompanying notes to consolidated condensed financial statements.

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended Sept. 30, 1995	Three Months Ended Sept. 30, 1994	Nine Months Ended Sept. 30, 1995	Nine Months Ended Sept. 30, 1994
	(in millions, except per share amounts)			
OPERATING REVENUES				
Railroad	$ 773.0	$ 787.6	$ 2,300.1	$ 2,298.6
Other	23.6	19.7	67.8	63.5
Total	796.6	807.3	2,367.9	2,362.1
OPERATING EXPENSES				
Railroad	725.3	691.6	2,137.0	2,034.9
Special charge (Note 5)	-	-	64.6	-
Other	23.4	18.6	66.6	60.5
Total	748.7	710.2	2,268.2	2,095.4
OPERATING INCOME	47.9	97.1	99.7	266.7
OTHER INCOME (EXPENSE)				
Gains from sales of property	1.3	2.9	16.1	24.4
Real estate rentals, net	4.8	5.6	12.6	17.3
Interest	2.6	4.7	9.1	10.9
Other income (expense), net	(17.9)	(17.2)	(46.8)	(44.9)
Total	(9.2)	(4.0)	(9.0)	7.7
INTEREST EXPENSE	35.0	37.7	99.2	115.3
INCOME (LOSS) BEFORE INCOME TAXES	3.7	55.4	(8.5)	159.1
INCOME TAX (BENEFIT)				
Current	0.1	(0.5)	0.1	-
Deferred	2.4	22.4	(2.3)	62.1
Total	2.5	21.9	(2.2)	62.1
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	1.2	33.5	(6.3)	97.0
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR POST-EMPLOYMENT BENEFITS IN 1994, net of tax	-	-	-	(6.0)
NET INCOME (LOSS)	$ 1.2	$ 33.5	$ (6.3)	$ 91.0
EARNING (LOSS) PER SHARE				
Net earnings before cumulative effect of change in accounting	$ 0.01	$ 0.22	$ (0.04)	$ 0.65
Cumulative effect of change in accounting	-	-	-	(0.04)
Net income (loss)	$ 0.01	$ 0.22	$ (0.04)	$ 0.61

See accompanying notes to consolidated condensed financial statements.

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 1995
(Unaudited)

	Common Stock		Additional		
	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Total
			(in millions)		
Balances at December 31, 1994	156	$ 0.2	$ 1,116.2	$ (57.7)	$ 1,058.7
Net loss	-	-	-	(6.3)	(6.3)
Issuance of Common Stock	-	-	5.6	-	5.6
Balances at September 30, 1995	156	$ 0.2	$ 1,121.8	$ (64.0)	$ 1,058.0

See accompanying notes to consolidated condensed financial statements.

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30 1995	Nine Months Ended September 30 1994
	(in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (6.3)	$ 91.0
Adjustments to net income (loss):		
Gains from sales of property and real estate	(16.1)	(24.4)
Depreciation and amortization	116.5	104.7
Deferred income taxes	(2.3)	58.2
Special charge	64.6	-
Cumulative effect of change in accounting for post-employment benefits in 1994	-	9.8
Other adjustments	(101.5)	(180.6)
Total adjustments	61.2	(32.3)
Net cash provided by operating activities	54.9	58.7
CASH FLOWS FROM INVESTING ACTIVITIES		
Property sold and retired	24.7	30.8
Capital expenditures	(270.6)	(203.0)
Decrease in short-term investments	95.0	-
Change in notes receivable and other investments, net	(8.0)	(11.0)
Net cash used for investing activities	(158.9)	(183.2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of debt, net of costs	225.0	55.6
Debt and revolver repayment	(129.2)	(349.7)
Proceeds from issuance of stock, net of costs	-	503.6
Redeemable preference shares repayment	(0.9)	(1.3)
Net cash provided by financing activities	94.9	208.2
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9.1)	83.7
CASH AND CASH EQUIVALENTS-BEGINNING OF THE PERIOD	145.6	65.4
CASH AND CASH EQUIVALENTS-END OF THE PERIOD	$ 136.5	$ 149.1

See accompanying notes to consolidated condensed financial statements.

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
September 30, 1995
(Unaudited)

(1) OWNERSHIP AND PRINCIPLES OF CONSOLIDATION

Southern Pacific Rail Corporation ("SPRC") is the parent company of Southern Pacific Transportation Company ("SPT"). SPRC together with its subsidiaries is referred to as the Company. Railroads owned include SPT and SPT's subsidiaries, St. Louis Southwestern Railway Company ("SSW"), SPCSL Corp. ("SPCSL") and The Denver and Rio Grande Western Railroad Company ("D&RGW"). These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 1994. In the opinion of management, all adjustments (consisting of normal, recurring accruals) necessary for a fair presentation of interim period results have been included. However, these results are not necessarily indicative of results for a full year.

(2) RECLASSIFICATIONS

Certain of the prior period amounts have been reclassified to conform to the September 30, 1995 consolidated condensed financial statement presentation.

(3) SUPPLEMENTAL CASH FLOW INFORMATION

	Nine Months Ended Sept. 30,	
	1995	1994
	(in millions)	
Cash payments:		
Interest	$ 78.6	$ 105.3
Income taxes	1.2	(2.9)
Non-cash transactions:		
Capital lease obligations for railroad equipment	465.6	146.2
Issuance of common stock	5.6	0.8

(4) CAPITAL LEASE FINANCING

As of September 30, 1995, $465.6 million of equipment has been received and included in the capital lease obligations incurred during the first nine months of 1995. An additional $48.0 million of equipment to be financed under capital leases (including 28 locomotives and approximately 373 reconditioned freight cars) is expected to be received by year end.

(5) SPECIAL CHARGE

In June 1995, the Board of Directors approved plans aimed at reducing future operating costs and increasing productivity which resulted in a $64.6 million pretax charge. Approximately $41 million of the charge is related to severance payments to be made during the next year for approximately 582 employees (both management and labor), approximately $4 million of the charge is related to costs associated with terminating certain leased facilities, and approximately $20 million is for the expected loss associated with the sale, lease or abandonment of 600 miles of light density rail lines. Current liabilities, non-current liabilities and accumulated depreciation at June 30, 1995 were increased by approximately $28 million, $17 million and $20 million, respectively, as a result of this charge. As part of the plans to increase productivity, the Company also approved the relocation and training of up to 300 employees for which future expected costs of approximately $8 million will be expensed as incurred under current accounting principles. As of September 30, 1995, 25 employees have been terminated and $0.7 million has been charged to the reserve. The Company continues to evaluate the costs and benefits of the special charge approved by the Board in June, 1995 as it considers the 1996 business plan.

(6) OTHER

In November 1994, the Burlington Northern Railroad Company ("BN") and the Atchison, Topeka & Santa Fe Railway Company ("ATSF") filed an application with the Interstate Commerce Commission ("ICC") for approval of a proposed merger of the two companies. On April 13, 1995, the Company entered into an agreement with BN and ATSF to provide trackage and haulage rights over portions of each other's rail lines, effective upon the completion of the proposed BN/ATSF merger. On August 23, 1995 the ICC served a written decision approving the proposed merger. The decision was effective September 22, 1995, and on that date, the BN/ATSF merger was consummated.

On March 31, 1995, the Company and Union Pacific Railroad Company ("UPRR") entered into an agreement to settle the outstanding litigation, which was reported in the Company's Annual Report on Form 10-K for the period ending December 31, 1994, relating to the compensation SSW would pay for trackage rights over UPRR lines between Kansas City and St. Louis. Under the settlement agreement, the Company paid UPRR $30.76 million on April 3, 1995 and executed a note agreeing to pay UPRR $30.76 million, plus interest at 7%, on April 3, 1996. As a result of the settlement agreement, both parties dismissed their claims in the ICC and court proceedings.

(7) PROPOSED MERGER WITH UNION PACIFIC

On August 3, 1995, the Board of Directors of SPRC approved an agreement providing for the merger of SPRC and UPRR, a wholly-owned subsidiary of Union Pacific Corporation ("UP"). Under the terms of the agreement, a subsidiary of UP acquired 25% of the common stock of SPRC at a price of $25.00 per share pursuant to a tender offer. The shares purchased in the tender offer are held in a voting trust pending approval of the merger by the ICC. Following receipt of ICC approval and the satisfaction of other conditions (including approval by SPRC stockholders), SPRC (and the UP subsidiary that purchased SPRC stock in the cash tender offer) will be merged into UPRR. In the SPRC/UPRR merger, each share of SPRC stock would be converted, at the holder's election (subject to proration), into the right to receive $25.00 in cash or 0.4065 shares of UP common stock. Of the shares of SPRC common stock outstanding immediately prior to the merger (other than the shares previously acquired by UP in the tender offer), 20% of such shares will be acquired for cash and 80% of such shares will be acquired in exchange for shares of UP common stock. The two companies expect to file an application with the ICC on or before December 1, 1995.

(8) COMMITMENTS AND CONTINGENCIES

The Company is subject to Federal, state and local environmental laws and regulations and 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 Company has recorded a liability. The Company does not believe that disposition of environmental matters known to the Company will have a material adverse effect on the Company's financial condition or liquidity; however, there can be no assurance that the impact of these matters on its results of operations for any given reporting period will not be material.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Three Months Ended September 30, 1995 Compared to Three Months Ended September 30, 1994

The Company had net income of $1.2 million ($.01 per share) for the third quarter of 1995 compared to net income of $33.5 million ($.22 per share) for the third quarter of 1994. The Company had operating income of $47.9 million for the third quarter of 1995 compared to operating income of $97.1 million for the 1994 quarter. For the third quarter of 1995, railroad operating revenues decreased 1.9% and railroad operating expenses increased 4.9% over the 1994 period.

Operating Revenues. In the third quarter of 1995, railroad operating revenues decreased $14.6 million, or 1.9%, compared to the third quarter of 1994. Revenues have been significantly impacted by increasing service competition from the Company's principal competitors relating to transit times and consistency, areas in which the Company has historically lagged certain of its competitors. Railroad freight operating revenues decreased $11.5 million, or 1.5%, due primarily to decreased shipments of intermodal traffic, forest products and food and agricultural products combined with reduced revenues resulting from lower rates from automotive traffic during the 1995 period. Carloads for coal, metals and ores, construction materials and minerals as well as automotive traffic increased for the 1995 quarter compared to the 1994 quarter. Other railroad revenues (primarily switching and incidental) decreased $3.1 million during the third quarter of 1995 compared to the 1994 quarter due primarily to reduced service revenues associated with reduced temperature controlled traffic volume and to reduced interline switching revenues for the 1995 period. For the third quarter of 1995, carloads increased 2.7% and revenue ton-miles increased 10.6% compared to the same period in 1994. The average net freight revenue per ton-mile for the third quarter of 1995 declined by 10.9% compared to the third quarter of 1994 due principally to an increase in traffic volume for commodities that generate lower revenue per ton-mile (e.g., coal and iron ore traffic).

The following table compares traffic volume (in carloads), gross freight revenues (before contract allowances and adjustments) and gross freight revenue per carload by commodity group for the three months ended September 30, 1995 and 1994.

Carload and Gross Freight Revenue Comparison
Three Months Ended September 30, 1995 and 1994

Commodity Group	Carloads			Gross Freight Revenues			Gross Freight Revenue Per Carload		
	1995	1994	% Change	1995	1994	% Change	1995	1994	% Change
	(in thousands)			(dollars in millions, except revenue per carload)					
Intermodal	183.2	193.3	(5.2) %	$212.8	$228.7	(7.0) %	$1,161	$1,183	(1.8) %
Coal	90.7	78.0	16.3	87.6	77.2	13.5	966	990	(2.5)
Chemical and petroleum products	84.4	83.7	0.9	147.2	154.5	(4.8)	1,743	1,846	(5.6)
Food and agricultural products	62.3	63.4	(1.8)	107.8	107.2	0.5	1,731	1,691	2.4
Forest products	55.3	57.6	(4.1)	104.6	110.2	(5.0)	1,894	1,913	(1.0)
Metals and ores	53.4	44.8	19.3	79.4	68.2	16.5	1,487	1,522	(2.3)
Construction materials and minerals	50.7	45.5	11.5	46.9	45.5	3.2	925	1,000	(7.5)
Automotive	18.3	16.4	11.4	38.8	42.7	(9.2)	2,123	2,608	(18.6)
Total	598.3	582.7	2.7 %	$825.1	$834.2	(1.1) %	$1,379	$1,432	(3.7) %

· Intermodal carloads and revenue declined for the third quarter of 1995 compared to the same period in 1994 due to reduced trailer-on-flatcar ("TOFC") traffic. This decline was generated by stagnant industry intermodal traffic, changes in customer distribution and shipping patterns, peso devaluation in Mexico and increases in service competition from major competitors.

· Coal carloads and revenue increased for the 1995 period due to continued demand for the low-sulfur high-BTU content coal produced by Company-served mines. This demand was from both existing utility customers and new utility customers and was enhanced by the customers' ability to blend the low-sulfur coal with higher sulfur coal in order to satisfy requirements of the Clean Air Act. Revenue per carload declined due to the effect of new short-haul traffic.

· Chemical and petroleum products carloads increased slightly while revenue decreased during the third quarter of 1995 compared to the same period in 1994. The carload increases were due primarily to increased shipments of environmental wastes substantially offset by decreased shipments of crude oil, plastics and fertilizer traffic. Revenue per carload decreased for the 1995 quarter from the 1994 quarter due primarily to changes in the commodity and traffic mix.

· Food and agricultural products carloads decreased while revenue increased slightly during the third quarter of 1995 compared to the same period in 1994. The carload decrease was due to reduced shipments of temperature controlled products partially offset by increased shipments of food products and cotton. Revenue per carload increased due primarily to longer hauls for grain traffic during the 1995 period.

· Forest products carloads and revenue decreased during the third quarter of 1995 due to a slowdown in the construction markets and increases in service competition issues affecting lumber traffic compared to the 1994 period. The revenue per carload decrease was due to changes in product mix and length of haul.

· Carloads and revenue for metals and ores traffic increased in the third quarter of 1995 compared to the third quarter of 1994 due primarily to the startup of iron ore traffic between Minnesota and Utah in August 1994 and to a strong sulfuric acid market. Revenue per carload decreased for the 1995 period due to the higher share of lower-rated iron ore traffic in the commodity mix.

· Construction materials and minerals carloads and revenues increased for the 1995 period due to increased shipments of minerals, cement and other aggregates. The revenue per carload reduction was due to the reduced length of haul associated with aggregates traffic.

· Automotive carloads increased during the 1995 period due to new traffic, the startup of a new model year and the short-term impact of the Teamster strike against certain motor carriers which ended in mid-October. Revenue and revenue per carload declined during the third quarter of 1995 due to lower rates in effect during 1995.

Operating Expenses. Railroad operating expenses for the third quarter of 1995 increased $33.7 million, or 4.9%, compared to the third quarter of 1994. The following table sets forth a comparison of the Company's railroad operating expenses during the three months ended September 30, 1995 and 1994.

Railroad Operating Expense Comparison
Three Months Ended September 30, 1995 and 1994

	1995	1994	% Change
	(in millions)		
Labor and fringe benefits	$286.6	$268.3	6.8 %
Fuel	67.8	67.3	0.8
Materials and supplies	42.2	43.9	(3.9)
Equipment rental	79.1	82.8	(4.4)
Depreciation and amortization	43.0	37.1	15.8
Other	206.6	192.2	7.5
Total	$725.3	$691.6	4.9 %

· Labor and fringe benefit costs increased $18.3 million, or 6.8%, for the third quarter of 1995 compared to the third quarter of 1994. The Company increased employment by 3.3% to a total of 19,246 as of the end of September 1995 compared to 18,638 at the end of September 1994. The increase in employment was due primarily to an increase in train and engine crews in order to improve customer service and to address congestion in certain high volume corridors. Train crew starts increased by 4.4% for the third quarter of 1995 compared to the same period in 1994. Gross ton-miles increased by 8.4% and carloads increased by 2.7% over the same period. The increased expense was also due to increased cost per start associated with training new train and engine crew employees. Expressed as a percentage of operating revenues, labor and fringe benefit expenses were 36.0% for the third quarter of 1995 compared to 33.2% for the third quarter of 1994.

· Fuel expenses increased $0.5 million, or 0.8%, for the third quarter of 1995 compared to the same period in 1994. The increase was a result of an increase in gallons consumed of 2.7% for the 1995 quarter compared to the 1994 quarter attributable to the increase in traffic volume, partially offset by a decrease in the average price per gallon of fuel (which includes handling and fuel hedging costs) from $.61 during the third quarter of 1994 to $.60 during the third quarter of 1995. Fuel expense includes amounts paid to the Company's suppliers and amounts paid under fuel hedging contracts. Included in the third quarter 1995 fuel expense was $3.6 million paid under fuel hedging contracts compared to $2.7 million for the 1994 quarter. While total fuel expense increased for the 1995 quarter, fuel efficiency also increased by approximately 5% as measured by gallons consumed per gross ton-mile.

· Materials and supplies expenses decreased $1.7 million, or 3.9%, for the third quarter of 1995 compared to the third quarter of 1994 due primarily to reduced locomotive material expenses and running repairs. During the third quarter of 1995, the Company rebuilt or overhauled 40 locomotives compared to 65 during the 1994 period. This decrease was partially offset by increased freight car repair material expenses and maintenance of way bridge and signal expenses.

· Equipment rental costs decreased $3.7 million, or 4.4%, for the third quarter of 1995 compared to the third quarter of 1994. The decrease was primarily attributable to $6 million received in connection with the renegotiation of terms of an equipment utilization agreement as well as to reduced locomotive lease expenses during the 1995 period. Partially offsetting these expense decreases was an $8.0 million increase in net car hire attributable to increases in traffic volume and cycle times.

· Depreciation and amortization expense increased $5.9 million, or 15.8%, for the third quarter of 1995 due to an increase in the depreciable property base principally from significant equipment acquisitions during the year.

· Other expenses increased $14.4 million, or 7.5%, for the third quarter of 1995 compared to the third quarter of 1994. This category of expense includes outside repairs and services, joint facility rent and maintenance costs, casualty costs and property and other taxes. Expenses in this category which increased significantly over the prior period were casualty costs, joint facility costs, intermodal rent and equipment repair costs, information system outsourcing costs and sales, use and fuel taxes and user fees. Casualty costs, including destroyed equipment, increased $7.7 million for the third quarter of 1995 compared to the 1994 quarter. Partially offsetting these increased casualty costs were $5.5 million in insurance recoveries received as partial settlement of claims relating to the 1993 midwest flood. Joint facility costs increased $4.8 million due to increased billings for maintenance, increased interest rental payments as well as costs associated with a new haulage agreement for traffic between Memphis and Chicago. Intermodal rent and equipment repair costs increased $3.5 million due to increased facility rent and crane repair costs. Information system outsourcing costs increased $1.2 million for the third quarter of 1995 compared to the same period in 1994. Other costs including sales, use and fuel taxes increased $2.7 million in the third quarter of 1995 compared to the 1994 period.

Other Income (Expense) and Interest Expense. Other income (expense) was a net expense of $9.2 million for the third quarter of 1995 compared to a net expense of $4.0 million for the same period in 1994. The increased net expense was due primarily to a $1.6 million decrease in gains on sales of property, a $0.8 million decrease in real estate rentals, net due to increased expenses related to property sales and to a $2.1 million decrease in interest income due to lower levels of cash for investment during the 1995 period. Included in the 1995 amount was $5.1 million of costs associated with the proposed Union Pacific Railroad Company ("UPRR")/SPRC merger. This expense was offset by $5.2 million of reduced costs associated with the sale of accounts receivable during the 1995 period. Interest expense was $35.0 million for the third quarter of 1995 compared to $37.7 million for the third quarter of 1994, a decrease of $2.7 million. The decrease was associated primarily with the repayment of the Company's $290 million Senior Secured Notes in December 1994. Other decreases were offset by increased interest expense associated with the higher level of capitalized lease obligations for new locomotives and freight cars outstanding during the third quarter of 1995 compared to the third quarter of 1994. It is expected that interest expense in the fourth quarter and later periods will substantially increase as a result of the increase in capitalized lease obligations and debt borrowing.

Nine Months Ended September 30, 1995 Compared to Nine Months Ended September 30, 1994

The Company had a net loss of $6.3 million ($.04 per share) for the first nine months of 1995 after a $64.6 million pre-tax special charge compared to net income of $91.0 million ($.61 per share) for the first nine months of 1994 (which included a $6.0 million charge for the cumulative effect of a change in accounting for post-employment benefits under Statement of Financial Accounting Standards ("FAS") No. 112 adopted by the Company effective January 1, 1994). The Company had operating income of $99.7 million for the first nine months 1995 including the special charge (operating income of $164.3 million excluding the special charge) compared to $266.7 million for the 1994 period. For the first nine months of 1995, railroad operating revenues increased 0.1% and railroad operating expenses increased 5.0% (excluding the special charge) over the 1994 period. The $64.6 million special charge includes provisions for employee separation and for the sale, lease or abandonment of light density rail lines (see Note 5 to the Consolidated Condensed Financial Statements).

Operating Revenues. In the first nine months of 1995, railroad operating revenues increased $1.5 million, or 0.1%, compared to the first nine months of 1994. Revenues have been significantly impacted by increasing service competition from the Company's principal competitors relating to transit times and consistency, areas in which the Company has historically lagged certain of its competitors. Railroad freight operating revenues increased $2.9 million, or 0.1%, due primarily to increased shipments of coal, metals and ores and construction materials and minerals. Carloads for chemicals and petroleum products, food and agricultural products, forest products and intermodal traffic declined for the 1995 period compared to the 1994 period. Other railroad revenues (primarily switching and incidental) decreased $1.4 million during the first nine months of 1995 compared to the 1994 period due primarily to reduced service revenues associated with reduced temperature controlled traffic volume and to reduced interline switching revenues for the 1995 period. For the first nine months of 1995, carloads increased 2.1% and revenue ton-miles increased 10.3% compared to the same period in 1994. The average net freight revenue per ton-mile for the first nine months of 1995 declined by 9.2% compared to the first nine months of 1994 due principally to an increase in traffic volume for commodities that generate lower revenue per ton-mile (e.g., coal and iron ore traffic).

The following table compares traffic volume (in carloads), gross freight revenues (before contract allowances and adjustments) and gross freight revenue per carload by commodity group for the nine months ended September 30, 1995 and 1994.

Carload and Gross Freight Revenue Comparison
Nine Months Ended September 30, 1995 and 1994

Commodity Group	Carloads			Gross Freight Revenues			Gross Freight Revenue Per Carload		
	1995	1994	% Change	1995	1994	% Change	1995	1994	% Change
	(in thousands)			(dollars in millions, except revenue per carload)					
Intermodal	534.3	547.5	(2.4) %	$626.7	$637.9	(1.7) %	$1,173	$1,165	0.7 %
Coal	272.3	228.0	19.4	263.1	223.8	17.5	966	981	(1.5)
Chemical and petroleum products	244.5	262.0	(6.7)	438.1	465.6	(5.9)	1,792	1,777	0.8
Food and agricultural products	179.1	181.7	(1.5)	308.6	310.0	(0.5)	1,723	1,706	1.0
Forest products	160.7	171.7	(6.4)	306.7	326.5	(6.1)	1,909	1,901	0.4
Metals and ores	154.9	132.8	16.6	228.9	205.3	11.5	1,477	1,547	(4.5)
Construction materials and minerals	142.0	131.4	8.1	134.6	131.9	2.0	948	1,004	(5.6)
Automotive	57.3	54.0	6.0	129.4	139.8	(7.4)	2,260	2,587	(12.6)
Total	1,745.1	1,709.1	2.1 %	$2,436.1	$2,440.8	(0.2) %	$1,396	$1,428	(2.2) %

· Intermodal carloads and revenue declined slightly for the first nine months of 1995 compared to the same period for 1994 due to the combined effects of a decrease in TOFC traffic due to stagnant industry intermodal traffic, changes in customer distribution and shipping patterns, peso devaluation in Mexico and increases in service competition from major competitors. Partially offsetting these decreases were increased container-on-flatcar ("COFC") business with major steamship accounts. The increase in revenue per carload was due to an increase in length of haul for both COFC and TOFC traffic.

· Coal carloads and revenue increased for the 1995 period due to continued demand for the low-sulfur high-BTU content coal produced by Company-served mines. This demand was from both existing utility customers and new utility customers and was enhanced by the customers' ability to blend the low-sulfur coal with higher sulfur coal in order to satisfy requirements of the Clean Air Act. The revenue per carload declined due to the effect of new short-haul traffic.

- Chemical and petroleum products carloads and revenue decreased during the first nine months of 1995. A portion of this decrease was attributable to reduced fertilizer traffic caused by the flooding in California during the spring of 1995, a longer than planned maintenance shutdown for a primary crude oil customer, and to a change in the classification of certain plastics traffic.

- Food and agricultural products carloads and revenue decreased during the first nine months of 1995 compared to the same period in 1994 due to reduced shipments of grain, temperature controlled products, alcoholic beverages and vegetable oils, partially offset by increased shipments of sugar beets, canned foods and cotton.

- Forest products carloads and revenue decreased during the first nine months of 1995 due, in part, to reduced lumber and paper traffic caused by severe weather and flooding in California during the spring of 1995, to a slowdown in the construction markets and increases in service competition issues affecting lumber traffic and to a strike by millworkers affecting paper traffic that ended in March 1995.

- Carloads and revenue for metals and ores traffic increased in the first nine months of 1995 compared to the first nine months of 1994 due primarily to the startup of iron ore traffic between Minnesota and Utah in August 1994, to increased copper concentrate traffic due to shifts in customers' markets and to a strong sulfuric acid market. Revenue per carload decreased for the 1995 period due to the higher share of lower-rated iron ore traffic in the commodity mix.

- Construction materials and minerals carloads and revenue increased for the 1995 period due principally to increased shipments of minerals, cement and other aggregates. The revenue per carload reduction was due to the reduced length of haul associated with aggregates traffic.

- Automotive carloads increased during the first nine months of 1995 compared to the first nine months of 1994 due to strong northbound shipments from Mexico, new traffic, the startup of a new model year and the short-term impact of a Teamster strike against certain motor carriers which ended in mid-October. The decline in revenue and revenue per carload was due to lower rates in effect during 1995.

<u>Operating Expenses.</u> Railroad operating expenses for the first nine months of 1995 increased $166.7 million, or 8.2%, compared to the first nine months of 1994. The following table sets forth a comparison of the Company's railroad operating expenses during the nine months ended September 30, 1995 and 1994.

Railroad Operating Expense Comparison
Nine Months Ended September 30, 1995 and 1994

	1995	1994	% Change
	(in millions)		
Labor and fringe benefits	$837.1	$809.6	3.4 %
Fuel	195.0	188.2	3.6
Materials and supplies	137.5	143.5	(4.2)
Equipment rental	235.9	246.8	(4.4)
Depreciation and amortization	116.5	104.7	11.3
Other	615.0	542.1	13.4
Special charge	64.6	-	100.0
Total	$2,201.6	$2,034.9	8.2 %

· Labor and fringe benefit costs increased $27.5 million, or 3.4%, for the first nine months of 1995 compared to the first nine months of 1994. The Company increased employment by 3.3% to a total of 19,246 as of the end of September 1995 compared to 18,638 at the end of September 1994. The increase in employment was due primarily to an increase in train and engine crews in order to improve customer service and to address congestion in certain high volume corridors. Train crew starts increased by 4.3% for the first nine months of 1995 compared to the same period in 1994. Gross ton-miles increased by 8.0% and carloads increased 2.1% over the same period. The increased expense was also due to increased cost per start associated with training the new train and engine crew employees. Partially offsetting the expense increase was an adjustment in the first quarter of 1995 to reflect reduced costs associated with non-agreement fringe benefits. Expressed as a percentage of operating revenues, labor and fringe benefit expenses were 35.4% for the first nine months of 1995 compared to 34.3% for the first nine months of 1994.

· Fuel expenses increased $6.8 million, or 3.6%, for the first nine months of 1995 compared to the same period in 1994. The increase was a result of an increase in gallons consumed of 3.4% for the 1995 period compared to the 1994 period attributable to the increase in traffic volume, coupled with a stable average price per gallon of fuel (which includes handling and fuel hedging costs) of $.58 for both periods. Fuel expense includes amounts paid to the Company's suppliers and amounts paid under fuel hedging contracts. Included in the nine month 1995 fuel expense was $6.3 million paid under fuel hedging contracts compared to $10.9 million for the 1994 period. While total fuel expense increased for the 1995 period, fuel efficiency also increased by approximately 4% as measured by gallons consumed per gross ton-mile.

· Materials and supplies expenses decreased $6.0 million, or 4.2%, for the first nine months of 1995 compared to the first nine months of 1994 due primarily to reduced locomotive material expenses and running repairs. During the first nine months of 1995, the Company rebuilt or overhauled 141 locomotives compared to 227 during the 1994 period. This decrease was partially offset by increased freight car repair material expenses during the second and third quarters of 1995 as well as increases in maintenance of way bridge and signal expenses and transportation safety equipment.

· Equipment rental costs decreased $10.9 million, or 4.4%, for the first nine months of 1995 compared to the first nine months of 1994. The decrease was primarily attributable to the conversion of freight car equipment from operating lease to capital lease late in 1994, to reduced locomotive lease expenses during the 1995 period, as well as to $6 million received in connection with the renegotiation of terms of an equipment utilization agreement. Partially offsetting these expense decreases was an $11.5 million increase in net car hire attributable to increases in traffic volume and cycle times.

· Depreciation and amortization expense increased $11.8 million, or 11.3%, for the first nine months of 1995 due to an increase in the depreciable property base principally from significant equipment acquisitions during the year.

· Other expenses increased $72.9 million, or 13.4%, for the first nine months of 1995 compared to the first nine months of 1994. This category of expense includes outside repairs and services, joint facility rent and maintenance costs, casualty costs and property and other taxes. Expenses in this category which increased significantly over the prior period were casualty and detour costs, joint facility costs, intermodal rent and equipment repair costs, information system outsourcing costs and other costs including utilities, taxes, travel expenses, meals and lodging expenses and user fees. Casualty costs, including destroyed equipment, increased $22.3 million and detour expenses increased $4.6 million for the first nine months of 1995 compared to the 1994 period due primarily to the severe weather and flooding in California during the spring of 1995. Partially offsetting these increased casualty costs were $10.5 million in insurance recoveries received as a partial settlement of claims relating to the 1993 midwest flood. Joint facility costs increased $20.6 million due to increased billings for maintenance, increased interest rental payments as well as costs associated with a new haulage agreement for traffic between Memphis and Chicago. Intermodal rent and equipment repair costs increased $9.1 million due to increased facility rent and crane repair costs. Information system outsourcing costs increased $5.2 million for the first nine months of 1995 compared to the same period in 1994. Other costs including utilities, taxes, travel expenses, meals and lodging expenses and user fees increased $21.6 million for the first nine months of 1995 compared to the same period in 1994.

· In June 1995, the Board of Directors approved plans aimed at reducing future operating costs and increasing productivity which resulted in a $64.6 million pretax special charge. Approximately $41 million of the charge was related to severance payments to be made during the next year for approximately 582 employees (both management and labor), approximately $4 million of the charge was related to costs associated with terminating certain leased facilities, and approximately $20 million was for the expected loss associated with the sale, lease or abandonment of 600 miles of light density rail lines. The Company continues to evaluate the costs and benefits of the special charge approved by the Board in June, 1995 as it considers its 1996 business plan.

Other Income (Expense) and Interest Expense. Other income (expense) was a net expense of $9.0 million for the first nine months of 1995 compared to a net income of $7.7 million for the same period in 1994. The increased net expense was due primarily to a $8.3 million decrease in gains on sales of property and a $4.7 million decrease in real estate rental income attributable to additional real estate lease and signboard rental income received in 1994 and increased 1995 expenses related to property sales. The 1995 amount also included $2.3 million of costs associated with the repayment of the Company's $290 million Senior Secured Notes as well as $5.1 million of costs associated with the proposed UPRR/SPRC merger. The 1994 amount included $3.0 million of expense related to the UPRR/Chicago and Northwestern Transportation Company merger. Interest expense was $99.2 million for the first nine months of 1995 compared to $115.3 million for the first nine months of 1994, a decrease of $16.1 million. The decrease was associated primarily with the repayment of the Company's $290 million Senior Secured Notes in December 1994. Other decreases were offset by increased interest expense associated with the higher level of capitalized lease obligations for new locomotives and freight cars outstanding during the first nine months of 1995 compared to the first nine months of 1994. It is expected that interest expense in the fourth quarter and later periods will substantially increase as a result of the increase in capitalized lease obligations and debt borrowing.

Liquidity and Capital Resources

The Company's business is capital intensive and requires on-going substantial expenditures for, among other things, improvements to roadway, structures and technology, acquisitions and repair of equipment, and maintenance of the rail system. During the first nine months of 1995, and for at least twelve years before that, the Company's railroad operations did not produce sufficient cash flows to meet its capital expenditure, debt service and other cash needs. As a result, the Company relied on proceeds from transit corridor, real estate and other asset sales, borrowings and other financing for these purposes.

The Company anticipates that, for the next few years, cash flows generated by rail operations will not be sufficient to meet its cash needs including acquisition of equipment and other necessary capital expenditures. In order to satisfy these cash flow requirements, as well as satisfy financial covenants in its bank credit facilities, the Company must continue to improve its operating results and obtain equipment financing while maintaining its bank credit facilities for use as required. Based on projected operating results and land sales in the fourth quarter of 1995, the Company presently believes it should meet the financial covenant tests in its bank credit facilities by a small margin. In addition, in order to reduce the amounts the Company will be required to borrow, the Company expects to continue to sell real estate assets with substantial values that are not necessary to its transportation operations. However, levels of asset sales may vary substantially from period to period, which in turn can cause significant variations in the Company's net income or loss, cash flows and liquidity.

In September 1995, the Company borrowed $150 million under its term loan facility and repaid $50 million previously borrowed under its separate revolving credit facility. As of September 30, 1995, the Company had cash, cash equivalents and short-term investments of $136.5 million. In addition, the Company had $300 million available under its revolving credit facility.

Continued implementation of the Company's strategic plan will require the ongoing availability of additional sources of funding, including secured equipment and capital lease financing to complete the upgrade of the Company's railcar fleet and technology and facility improvements, as well as borrowings under the Company's bank credit facilities. The Company will remain leveraged to a significant extent and its debt service and capital lease obligations will continue to be substantial.

The Company faces large capital investment requirements in order to meet the challenges of its major competitors, particularly as a result of the recent BN/ATSF merger. The intense service competition that has developed and will be accelerating will require capital expenditures for additional equipment, track improvements and other new facilities and technology. The Company's two major competitors have substantially stronger cash flow, financial capabilities and facilities and technology that are more advanced than those of the Company. The completion of the BN/ATSF merger and the integration of that system has occurred more quickly than the Company initially anticipated. The combined BN/ATSF has become a substantially stronger competitor than either railroad was separately. The stronger financial condition and resources of the Company's major competitors will allow them to make more investments designed to enhance service, attract new customers, gain market share and achieve even more efficient operations.

Operating Activities

As shown in the Consolidated Condensed Statements of Cash Flows, cash provided by operating activities was $54.9 million for the first nine months of 1995 compared to $58.7 million for the first nine months of 1994. The change between periods was due primarily to the net effect of changes in income offset by changes in accounts receivable and payable between periods based on the timing of receipts and payments. The Company expects to fund its operations (including scheduled interest payments, capital lease payments and severance payments attributable to items provided for in the special charge) over the next twelve months with cash from operations, cash on hand, property sales, secured equipment financing, capital leases and borrowings under its bank credit facilities.

For the first time in several years, volumes and revenues on intermodal business have declined. The Company believes this is attributable, in large part, to substantially increased service competition from the Company's major competitors relating to transit time and consistency, areas in which the Company has historically lagged certain of its competitors. The increasing service competition, including new single line service provided by the merged BN/ATSF, is expected to continue and is impacting other commodities as the BN/ATSF merger has created a much stronger competitor. Pressure on the Company to improve service and price more aggressively may continue and could adversely impact operating results because the Company may not be able to reduce costs as rapidly as it would have without the increased service competition from the BN/ATSF merger, and expend capital equivalent to its competitors and compete with equal service.

The Company had working capital deficits of $405.4 million and $290.4 million at September 30, 1995 and 1994, respectively. The increased deficit was due primarily to an increase in current liabilities at September 30, 1995. This increase included a higher current portion of casualty and restructuring reserves (including amounts associated with the special charge taken in June 1995) and a higher interest payable balance due primarily to interest associated with the increased capital lease obligations outstanding at September, 30 1995 compared to September 30, 1994.

The Company received cash proceeds from sales and retirements of real estate and other property totaling $24.7 million and $30.8 million for the first nine months of 1995 and 1994, respectively.

1995 Capital Expenditures

Capital expenditures (exclusive of capital leases) for the first nine months of 1995 were $270.6 million compared to $203.0 million for the same period in 1994. The 1995 amount included approximately $226.0 million for roadway and structures, $22.3 million for rebuilt locomotives and $13.6 million for improvements to an office building in Denver, Colorado. The 1994 amount includes approximately $122.2 million for roadway and structures, $42.5 million for rebuilt locomotives and $23.2 million for the acquisition of and improvements to a corporate office building in Denver, Colorado. During the first nine months of 1995, the Company rebuilt 57 locomotives compared to 146 locomotives during the 1994 period. The Company expects 1995 capital expenditures for railroad operations to be approximately $408 million (exclusive of capital leases).

The Company has been engaged in a program to expand and upgrade its locomotive and freight car fleets principally through capitalized lease financing. During the first nine months of 1995, the Company received 18 remanufactured locomotives, 253 of the 282 new locomotives on order, 920 new hopper cars, 1,050 used hopper cars and 827 of 1,200 reconditioned freight cars. All of the remaining equipment is expected to be received by year end. The Company has completed capitalized lease financing for 278 of the new locomotives, 17 of the remanufactured locomotives and all of the new and used hopper cars. The total expected capitalized lease obligation to be incurred in 1995 is approximately $513 million.

Financing Activities

During the first nine months of 1995, the Company incurred $465.6 million of capitalized lease obligations related to locomotive and freight car acquisitions. In September 1995, the Company borrowed $150 million under a term loan facility and repaid $50 million previously borrowed under the Company's $300 million revolving credit facility. The term loan facility has a final maturity date of December 28, 1999 and has a variable interest rate based on the LIBOR rate plus 125 basis points or the prime rate depending on the Company's credit rating. At September 30, 1995, the effective interest rate on the term loan facility was 7.125%. The $300 million revolving credit facility has a final maturity date of November 8, 1997 and has a variable interest rate based on the LIBOR rate plus 87.5 basis points or the prime rate depending on the Company's credit rating. Interest is payable quarterly. The Company also repaid $54.2 million of other debt during the first nine months of 1995.

As of September 30, 1995, $465.6 million of equipment has been received and included in the capital lease obligations incurred during the first nine months of 1995. An additional $48.0 million of equipment to be financed under capital leases (including 28 locomotives and approximately 373 reconditioned freight cars) is expected to be received by year end.

The Company is in the process of replacing its facility to sell accounts receivable which expires on November 30, 1995. The new facility would increase the maximum size of the facility from $300 million to $400 million. The Company expects to replace its accounts receivable facility prior to the expiration of its existing facility.

Other

In November 1994, the Burlington Northern Railroad Company ("BN") and the Atchison, Topeka & Santa Fe Railway Company ("ATSF") filed an application with the Interstate Commerce Commission ("ICC") for approval of a proposed merger of the two companies. On April 13, 1995, the Company entered into an agreement with BN and ATSF to provide trackage and haulage rights over portions of each other's rail lines, effective upon the completion of the proposed BN/ATSF merger. On August 23, 1995, the ICC served a written decision approving the proposed merger. The decision was effective September 22, 1995, and on that date, the BN/ATSF merger was consummated.

The Company faces large capital investment requirements in order to meet the challenges of its major competitors, particularly as a result of the recent BN/ATSF merger. The increasing service competition that has developed and will be accelerating will require substantial additional capital expenditures for additional equipment, track improvements and other new facilities and technology. The Company's two major competitors have substantially stronger cash flow, financial capabilities and facilities and technology that are more advanced than those of the Company. The completion of the BN/ATSF merger and the integration of that system has occurred more quickly than the Company initially anticipated. The combined BN/ATSF has become a substantially stronger competitor than either railroad was separately. The stronger financial condition and resources of the Company's major competitors will allow them to make more investments designed to enhance service, attract new customers, gain market share and achieve even more efficient operations. For the first time in several years, volumes and revenues on intermodal business have declined. The Company believes this is attributable, in large part, to substantially increased service competition from the Company's major competitors relating to transit time and consistency, areas in which the Company has historically lagged certain of its competitors. This intense service competition, including new single line service provided by the merged BN/ATSF, is expected to continue and is impacting other commodities as the BN/ATSF merger has created a much stronger competitor. BN/ATSF's ability to offer expanded single line service that the Company cannot offer to its customers will also negatively impact the Company. Pressure on the Company to improve service and price more aggressively may continue and could adversely impact operating results because the Company may not be able to reduce costs as rapidly as it would have without the increased service competition from the BN/ATSF merger, and expend capital equivalent to its competitors and compete with equal service. If the Company's proposed merger with UPRR were not completed, management now believes the Company would have to shrink its service. After several years of extraordinary capital expenditures to rebuild its locomotive fleet, the Company will not be able to match the financial resources of BN/ATSF or UP going forward to provide the facilities and other service enhancing investments necessary to be fully competitive on a stand-alone basis.

On August 3, 1995, the Board of Directors of SPRC approved an agreement providing for the merger of SPRC and UPRR, a wholly-owned subsidiary of Union Pacific Corporation ("UP"). Under the terms of the agreement, a subsidiary of UP acquired 25% of the common stock of SPRC at a price of $25.00 per share pursuant to a tender offer. The shares purchased in the tender offer are held in a voting trust pending approval of the merger by the ICC. Following receipt of ICC approval and the satisfaction of other conditions (including approval by SPRC stockholders), SPRC (and the UP subsidiary that purchased SPRC stock in the cash tender offer) will be merged into UPRR. In the SPRC/UPRR merger, each share of SPRC stock would be converted, at the holder's election (subject to proration), into the right to receive $25.00 in cash or 0.4065 shares of UP common stock. Of the shares of SPRC common stock outstanding immediately prior to the merger (other than the shares previously acquired by UP in the tender offer), 20% of such shares will be acquired for cash and 80% of such shares will be acquired in exchange for shares of UP common stock. The two companies expect to file an application with the ICC on or before December 1, 1995.

In June 1995, the Board of Directors approved plans aimed at reducing future operating costs and increasing productivity which resulted in a $64.6 million pretax charge. Approximately $41 million of the charge was related to severance payments to be made during the next year for approximately 582 employees (both management and labor), approximately $4 million of the charge was related to costs associated with terminating certain leased facilities, and approximately $20 million was for the expected loss associated with the sale, lease or abandonment of 600 miles of light density rail lines. Current liabilities, non-current liabilities and accumulated depreciation at June 30, 1995 were increased by approximately $28 million, $17 million and $20 million, respectively, as a result of this charge. As part of the plans to increase productivity, the Company also approved the relocation and training of up to 300 employees for which future expected costs of approximately $8 million will be expensed as incurred under current accounting principles. As of September 30, 1995 25 employees have been terminated and $0.7 million has been charged to the reserve. The Company continues to evaluate the costs and benefits of the special charge approved by the Board in June, 1995 as it considers its 1996 business plan.

Earlier this year, the Financial Accounting Standards Board issued Statement No. 121, "Impairment of Long-Lived Assets", which is required to be adopted by January 1, 1996. The Company has not evaluated the potential impact of adopting this Statement.

To ensure stability of its fuel costs, the Company has entered into fuel hedging agreements covering approximately 95% of its estimated 1995 fuel needs at an average purchase price of $.49 per gallon (excluding handling costs). However, in the event that fuel prices decline below the average purchase price under the hedging agreements the Company will not receive any benefit from these fuel hedging agreements and may in fact pay more for fuel than it would have paid in the absence of such agreements.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Union Pacific-Missouri Pacific Trackage Rights Compensation - On March 31, 1995, the Company and UPRR entered into an agreement to settle the outstanding litigation, which was reported in the Company's Annual Report on Form 10-K for the period ending December 31, 1994, relating to the compensation SSW would pay for trackage rights over UPRR lines between Kansas City and St. Louis. Under the settlement agreement, the Company paid UPRR $30.76 million on April 3, 1995 and executed a note agreeing to pay UPRR $30.76 million, plus interest at 7%, on April 3, 1996. As a result of the settlement agreement, both parties dismissed their claims in the ICC and court proceedings.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) On September 6, 1995, the Company filed a Current Report on Form 8-K describing the proposed UPRR/SPRC merger and tender offer for 25% of the outstanding common stock of the Company by UP Acquisition Corporation.

SIGNATURE

Pursuant to the requirements of the Securities and 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

Date: November 10, 1995

By: /s/ L.C. Yarberry
Vice President - Finance
(Principal Financial Officer)

SOUTHERN PACIFIC RAIL CORPORATION

EXHIBIT INDEX

Exhibit No.	Description
11	Computation of Earnings Per Share

STB FD 32760 11-30-95 A 1648V26 7/7

Exhibit 11

SOUTHERN PACIFIC RAIL CORPORATION AND SUBSIDIARY COMPANIES

COMPUTATION OF EARNINGS PER SHARE
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1995	1994	1995 2/	1994
Average number of shares outstanding	156,138	155,825	156,132	150,256
Net income (loss):				
Before cumulative effect of change in accounting 1/	$ 1,192	$ 33,513	$ (6,309)	$ 97,065
Cumulative effect of change in accounting	-	-	-	(6,054)
Net income (loss)	$ 1,192	$ 33,513	$ (6,309)	$ 91,011
Earnings per share:				
Before cumulative effect of change in accounting 1/	$ 0.01	$ 0.22	$ (0.04)	$ 0.65
Cumulative effect of change in accounting	-	-	-	(0.04)
Net income (loss)	$ 0.01	$ 0.22	$ (0.04)	$ 0.61

1/ The cumulative effect of a change in accounting for post-employment benefits under Statement of Financial Accounting Standards No. 112 adopted by the Company effective January 1, 1994.

2/ The 1995 nine month net loss amounts include a $64,628 pretax, $39,552 estimated after tax special charge.

SPCSL CORP.

(A wholly owned subsidiary of Southern Pacific Transportation Company)

CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

SEPTEMBER 30, 1995

SPCSL CORP.
(A wholly owned subsidiary of
Southern Pacific Transportation Company)

CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 1995	December 31, 1994
	(in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ -	$ -
Accounts receivable, net of allowance for doubtful accounts	21.9	23.6
Accounts receivable from affiliated companies	16.3	15.1
Materials and supplies, at cost	0.2	-
Prepaid lease costs	1.3	1.3
Other current assets	0.3	0.3
Total current assets	40.0	40.3
PROPERTY, AT COST		
Roadway and structures	90.4	87.4
Equipment	0.1	0.1
Total property	90.5	87.5
Less accumulated depreciation	10.8	8.3
Property, net	79.7	79.2
OTHER ASSETS AND DEFERRED CHARGES		
Prepaid lease costs and land purchase option	0.2	1.2
Other	0.9	0.5
Total other assets	1.1	1.7
Total assets	$ 120.8	$ 121.2

(continued)

SPCSL CORP.
(A wholly owned subsidiary of
Southern Pacific Transportation Company)

CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 1995	December 31, 1994
	(in millions)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts and wages payable	$ 5.2	$ 5.5
Accrued payables		
Taxes	0.5	0.6
Interest	1.6	1.5
Accounts payable to affiliates	4.7	3.9
Current portion of long-term debt	0.4	0.6
Other current liabilities	20.8	20.9
Total current liabilities	33.2	33.0
ADVANCES PAYABLE TO PARENT	38.0	38.0
LONG-TERM DEBT	44.5	44.2
OTHER LIABILITIES	2.8	4.2
STOCKHOLDER'S EQUITY		
Common stock	-	-
Additional paid-in capital	34.0	34.0
Accumulated deficit	(31.7)	(32.2)
Total stockholder's equity	2.3	1.8
Total liabilities and stockholder's equity	$ 120.8	$ 121.2

SPCSL CORP.
(A wholly owned subsidiary of
Southern Pacific Transportation Company)

CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 1995	Three Months Ended September 30, 1994	Nine Months Ended September 30, 1995	Nine Months Ended September 30, 1994
	(in millions)			
OPERATING REVENUES	$ 30.8	$ 33.8	$ 90.8	$ 83.8
OPERATING EXPENSES	30.0	29.8	85.7	80.0
OPERATING INCOME	0.8	4.0	5.1	3.8
OTHER INCOME (EXPENSE), NET	(0.1)	(0.2)	(0.4)	(0.5)
INTEREST EXPENSE	1.5	1.4	4.2	3.5
INCOME (LOSS) BEFORE INCOME TAXES	(0.8)	2.4	0.5	(0.2)
INCOME TAXES	-	0.2	-	-
NET INCOME (LOSS)	$ (0.8)	$ 2.2	$ 0.5	$ (0.2)

SPCSL CORP.

(A wholly owned subsidiary of
Southern Pacific Transportation Company)

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30. 1995	1994
	(in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 0.5	$ (0.2)
Adjustments to net income (loss)		
Depreciation	2.0	1.9
Other adjustments	-	(5.1)
Total adjustments	2.0	(3.2)
Net cash provided by (used for) operating activities	2.5	(3.4)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property sold and retired	0.5	1.0
Capital expenditures	(3.0)	(5.3)
Net cash used for investing activities	(2.5)	(4.3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from parent	-	2.0
Proceeds from issuance of debt	-	5.7
Net cash provided by financing activities	-	7.7
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS BEGINNING OF THE PERIOD	-	-
CASH AND CASH EQUIVALENTS-END OF THE PERIOD	$ -	$ -