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Finance Docket No. 32760, VOLUME 1

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UP/SP-22

Before the

INTERSTATE COMMERCE COMMISSION

Finance Docket No. 32760

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

RAILROAD MERGER APPLICATION

VOLUME 1

SUPPORTING INFORMATION, SUMMARY OF BENEFITS,
EXHIBITS 1, 8, 10-12 AND 16-19, STATEMENTS OF APPLICANTS' PRINCIPAL OFFICERS,
AND OTHER SUPPORTING STATEMENTS

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November 30, 1995

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November 30, 1995

VIA HAND DELIVERY

Hon. Vernon A. Williams
Secretary
Interstate Commerce Commission
Twelfth Street and Constitution Avenue, NW
Washington, D.C. 20423

Re: Finance Docket No. 32760, Union Pacific Corp., et al. -- Control and Merger -- Southern Pacific Rail Corp., et al.

Dear Mr. Williams:

Enclosed for filing are an original and 20 copies of UP/SP-22 through UP/SP-28 inclusive, containing the primary application in this proceeding, including all related applications and the Environmental Report. Also enclosed are the voucher for the filing fee, twenty unbound copies of the Exhibit 1 map showing the lines of Applicant carriers and other Western railroads (as required by 49 C.F.R. § 1180.6(a)(6)), twenty unbound copies of maps of trackage rights that UP/SP will convey to BN/Santa Fe and trackage rights that BN/Santa Fe will convey to UP/SP as conditions to the merger (as required under 49 C.F.R. § 1180.4(g)(1)(i) in connection with the notice of exemption in Finance Docket 32760 (Sub-No. 1)), and diskettes with the text of the application in Word Perfect version 5.1.

In order to accommodate printing schedules, Applicants assigned in advance the pleading numbers used for these volumes. Applicants have not used, and do not intend to use, pleading numbers UP/SP-18 through UP/SP-21.

Please note that Volume 2 has two versions: one is redacted for the public file and the other contains "Highly Confidential" information for filing under seal. Each version is clearly marked. The Commission is being provided with 20 copies of both versions. Applicants have served both versions on parties who are represented by outside counsel and have advised that they have complied with the terms of the protective order entered by the Commission in Decision No. 2, served September 1, 1995. Redacted copies of Volume 2 have been served on all other parties. Applicants will promptly provide

"Highly Confidential" versions of Volume 2 on request to those individuals who qualify under the terms of the protective order. Those volumes can be obtained by contacting Michael Rosenthal at Covington & Burling, (202) 662-5448.

Because of the length of the Environmental Report, Applicants have served Part 1 (Overview), which provides a comprehensive overview of the Report and its conclusions, as well as Parts 2 (Rail Line Segments) and 3 (Rail Yards and Intermodal and Automotive Facilities), on all parties required to be served under 49 C.F.R. § 1105.7(b). In addition, each state clearinghouse and environmental agency, and each of the pertinent federal agencies, has been served with the entire Report. Where a merger-related proposed abandonment is proposed, all of the pertinent state officials, and county officials of all affected counties, are also being served with Part 4 (Abandonments). Upon request, Applicants will promptly provide copies of Parts 4, 5 (Construction) and/or 6 (Appendix) to any interested party. A letter so advising has been sent to all persons being served with the Environmental Report in whole or in part (see attachment).

Sincerely,

Arvid E. Roach II

Arvid E. Roach II

cc: All Parties of Record

Enclosures

Law Department

UNION PACIFIC RAILROAD COMPANY

1416 DODGE STREET
ROOM 830
OMAHA, NEBRASKA 68179-0001
FAX (402) 271-5610

November 30, 1995

Re: Finance Docket No. 32760, Union Pacific Corp., et al. -- Control and Merger -- Southern Pacific Rail Corp., et al.

On November 30, 1995, Union Pacific Corporation, Union Pacific Railroad Company, Missouri Pacific Railroad Company, Southern Pacific Rail Corporation, Southern Pacific Transportation Company, St. Louis Southwestern Railway Company, SPCSL Corp. and The Denver and Rio Grande Western Railroad Company ("the Applicants") will be filing an application with the Interstate Commerce Commission for authority for Union Pacific to acquire control of Southern Pacific and consolidate UP and SP rail operations. The proposed control transaction and related proposed abandonments and construction projects involve railroad properties in the States of Arizona, Arkansas, California, Colorado, Illinois, Iowa, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Nevada, Oklahoma, Oregon, Texas, Utah, Washington, Wisconsin and Wyoming, the environmental and historic effects upon which are addressed in an Environmental Report that is being submitted to the ICC as part of the application.

Enclosed are Part 1 (Overview), Part 2 (Rail Line Segments), and Part 3 (Rail Yards and Intermodal and Automotive Facilities) of the Environmental Report. If you are an official in a state or county with a proposed abandonment, a copy of Part 4 (Abandonments) is also enclosed. Part 4 (Abandonments), Part 5 (Construction) and/or Part 6 (Appendix) will be provided promptly to any party requesting them.

Applicants are providing the enclosed volume(s), and making available the other volumes, so that you may review the information that will form the basis for the ICC's independent environmental analysis of this proceeding. If any of the information is misleading or incorrect, if you believe that pertinent information is missing, or if you have any questions about the ICC's environmental review process, please contact the Section of Environmental Analysis ("SEA"), Room 3219, Interstate Commerce Commission, Washington, D.C. 20423, telephone (202) 927-6211, and refer to Finance Docket No. 32760. Because the ICC has adopted an expedited schedule for processing this action, your written comments to SEA (with a copy to our representative) would be appreciated within three weeks.

Your comments will be considered by the Commission in evaluating the environmental and historic preservation impacts of the contemplated actions. If there are any questions concerning this proposal, please contact our representative directly. Applicants' representative in this matter is Thomas E. Greenland, who may be contacted by telephone at (402) 271-4634 or by mail at the Union Pacific Law Department, Room 830, 1416 Dodge Street, Omaha, Nebraska 68179.

Very truly yours,

Thomas E. Greenland

Thomas E. Greenland

Enclosures

cc: Hon. Vernon A. Williams
All Parties of Record

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November 30, 1995

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Your comments will be considered by the Commission in evaluating the environmental and historic preservation impacts of the contemplated actions. If there are any questions concerning this proposal, please contact our representative directly. Applicants' representative in this matter is Thomas E. Greenland, who may be contacted by telephone at (402) 271-4634 or by mail at the Union Pacific Law Department, Room 830, 1416 Dodge Street, Omaha, Nebraska 68179.

Very truly yours,

Thomas E. Greenland

Thomas E. Greenland

Enclosures

cc: Hon. Vernon A. Williams
All Parties of Record

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

TABLE OF ABBREVIATIONS

A&S	The Alton & Southern Railway Company
Acquisition	UP Acquisition Corporation
Amtrak	National Railroad Passenger Corporation
B&M	Boston & Maine Corporation
BC Rail	BC Rail Ltd.
BN/Santa Fe	The new railroad system resulting from the consolidation of BN and Santa Fe
BRC	Belt Railway Company of Chicago
C&IM	Chicago & Illinois Midland Railway Company
CCP	Chicago, Central & Pacific Railroad Company
CCT	Central California Traction Company
CN	Canadian National
CNW	Chicago and North Western Railway Company
CNWT	Chicago and North Western Transportation Company
Conrail	Consolidated Rail Corporation
CP	Canadian Pacific and its subsidiaries, including Soo
Crandic	Cedar Rapids & Iowa City Railway Company
CSX	CSX Transportation, Inc.
DOJ	U.S. Department of Justice
DOT	U.S. Department of Transportation
DRGW	The Denver and Rio Grande Western Railroad Company
FEC	Florida East Coast Railway Company
FNM	Ferrocarriles Nacionales de Mexico
FVW	Fox Valley & Western Ltd.
Gateway Western	Gateway Western Railway
GTW	Grand Trunk Western Railroad
HBT	Houston Belt & Terminal Railway Company

IAIS	Iowa Interstate Railroad Ltd.
IC	Illinois Central Railroad Company
IHB	Indiana Harbor Belt Railroad Company
KCS	Kansas City Southern Railway Company
LRWN	Little Rock & Western Railway, L.P.
MPRR	Missouri Pacific Railroad Company
NS	Norfolk Southern Railway Company
OURD	The Ogden Union Railway and Depot Company
Overnite	Overnite Transportation Company
PMT	Pacific Motor Transport Company
PTRA	Port Terminal Railroad Association
PTRC	Portland Traction Company
PTRR	Portland Terminal Railroad Company
RGI	Rio Grande Industries, Inc.
Santa Fe	The Atchison, Topeka and Santa Fe Railway Company
Soo	Soo Line Railroad Company
SPMT	Southern Pacific Motor Trucking Company
Southern Pacific	SPR and SP
SP	SPT, SSW, SPCSL and DRGW
SPCSL	SPCSL Corp.
SPR	Southern Pacific Rail Corporation
SPT	Southern Pacific Transportation Company
SSW	St. Louis Southwestern Railway Company
ST&E	Stockton Terminal and Eastern Railroad
TCT	Texas City Terminal Railway Company
Trona	Trona Railway Company
TRRA	Terminal Railroad Association of St. Louis
Union Pacific	UP and UPC

UP	UPRR and MPRR, including the former CNW
UPC	Union Pacific Corporation
UPRR	Union Pacific Railroad Company
Utah Railway	Utah Railway Company
WC	Wisconsin Central Ltd.
WP	Western Pacific Railroad Company

Before The
INTERSTATE COMMERCE COMMISSION

Finance Docket No. 32760

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

RAILROAD MERGER APPLICATION

SECTION 1180.6

INTRODUCTION

UPC, UPRR, MPRR, SPR, SPT, SSW, SPCSL and DRGW,[1] collectively, "Applicants," hereby apply under 49 U.S.C. §§ 11343-45 and the Commission's Railroad Consolidation Procedures, 49 C.F.R. pt. 1180,[2] for authorization for the merger of SPR into UPRR and the consolidation of the rail operations of UP and SP.

SECTION 1180.6(a)(1)(i)

SUMMARY OF TRANSACTION

The proposed transaction involves the acquisition and exercise of control of SPR and its subsidiaries, including those which are carriers by rail, by UPC and its wholly-owned subsidiaries, UPRR and MPRR.

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1 A table of the abbreviations that are used throughout this application follows the Master Table of Contents at the beginning of this volume.

2 All section references are to Title 49 of the Code of Federal Regulations, unless otherwise noted.

Acquisition and Merger. UPC, Acquisition (a direct wholly-owned subsidiary of UPRR), UPRR and SPR are parties to an Agreement and Plan of Merger dated as of August 3, 1995 (the "Merger Agreement").[3] A copy of the Merger Agreement (including clarifying agreements) is contained in Exhibit 2 in Volume 7 of the application (UP/SP-28). Upon the satisfaction of certain conditions, including approval by the Commission, the Merger Agreement calls for Acquisition to acquire all the common stock of SPR, and for SPR to be merged with and into UPRR (the "Merger"). As a result of the Merger, the separate corporate existence of SPR will cease and UPRR will be the surviving corporation.

At this time, it is Applicants' intent to effect the consolidation of the railroad operations of UP and SP through the merger of SPR into UPRR. However, depending upon tax, financial and other circumstances prevailing at the time, this consolidation may be effected by other means, including, for example, the merger of SPR into MPRR or the lease of all of SP's properties to UPRR and/or MPRR. It is also Applicants' present intent to merge SPT, SSW, SPCSL and DRGW into UPRR, although these subsidiaries of SPR may retain their separate existence for a period of time and it is possible that in lieu of such mergers some or all of them will be merged into, or their assets leased to, MPRR or other means used to accomplish their consolidation into the merged system.

Pursuant to the Merger Agreement, Acquisition tendered on August 9, 1995 for up to 25% of SPR common stock (the "Shares") at $25.00 per share in cash. On

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[3] At a special meeting of stockholders expected to be held in December 1995, the stockholders of SPR will be asked to consider the Merger pursuant to the Merger Agreement.

September 7, 1995, the tender offer was successfully completed for 39,034,471 Shares. On September 15, 1995, the Shares accepted for payment under the tender offer were purchased by Acquisition for approximately $976 million.[4] These Shares are being held in a voting trust pending approval of the Merger by the Commission.[5]

Upon satisfaction of all conditions to the Merger, each of SPR's stockholders will have the right to submit a request specifying the number of Shares that such stockholder desires to have converted into (a) .4065 shares of the common stock of UPC per Share, and (b) the right to receive $25.00 per Share in cash, without interest. The aggregate number of Shares to be converted into cash consideration at the time of the Merger, together with Shares tendered in the tender offer, will be equal as nearly as practicable to 40% of all Shares outstanding as of the date immediately prior to the date on which the Merger becomes effective. To the extent that SPR stockholders elect in the aggregate to receive either cash consideration or stock consideration in excess of such proportions, the Merger Agreement requires the cash or stock component to be prorated in order to achieve the specified proportions.

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[4] In Finance Docket No. 32761, Union Pacific Corp. -- Securities Exemption ("Tender Offer"), Decision served Aug. 21, 1995, the Commission granted an exemption for the issuance of debt securities to finance the purchase price of these Shares.

[5] By letter dated August 24, 1995, the Commission staff issued an informal, non-binding opinion pursuant to Section 1013.3(a) that the voting trust agreement and the arrangements contained therein effectively insulate UPC and its affiliates from any violation of the Interstate Commerce Act and the Commission policy against unauthorized control of SPR's carrier subsidiaries.

Consolidation of UP and SP Rail Operations. Upon consummation of the transaction, UP and SP rail operations will be consolidated as set forth in the Operating Plan (Exhibit 13 in Volume 3 of the application) and elsewhere in the application.

Settlement With BN/Santa Fe. Applicants have entered into a settlement agreement with BN/Santa Fe to preserve and enhance rail competition. See Section 1180.6(a)(2)(i), "Effects on Competition," below. Copies of the settlement agreement and of a supplemental agreement correcting and clarifying it are attached to the Verified Statement of John H. Rebensdorf in this volume of the application. The trackage rights and line sales provided for in that agreement are contingent on Commission approval of the primary application herein, and, as agreed in the settlement agreement, Applicants are respectfully requesting that the terms of the settlement agreement be imposed as a condition to such approval.

Settlement-Related Trackage Rights. Applicants' settlement agreement with BN/Santa Fe calls for UP/SP to grant various trackage rights to BN/Santa Fe, and for BN/Santa Fe to grant various trackage rights to UP/SP. A notice of exemption for these settlement-related trackage rights is being filed concurrently in Finance Docket No. 32760 (Sub-No. 1), and appears in Volume 5 of the application (UP/SP-26).

Settlement-Related Line Sales. Pursuant to Applicants' settlement agreement with BN/Santa Fe, UP/SP will sell various segments of track to BN/Santa Fe. A petition for exemption for these settlement-related line sales is being filed concurrently in Finance Docket No. 32760 (Sub-No. 2), and also appears in Volume 5.

Terminal Railroads. As a consequence of the proposed transaction, Applicants will acquire control over five terminal railroads, (a) A&S, which is owned 50 percent each by MPRR and SSW, (b) CCT, which is owned in equal parts by UPRR, SPT and Santa Fe, (c) OURD, which is owned 50 percent each by UPRR and SPT, (d) PTRR, of which UPRR and BN are each 40 percent owners and SPT is a 20 percent owner, and (e) PTRC, which is owned 50 percent each by UPRR and SPT. In Finance Docket No. 32760 (Sub-Nos. 3 through 7), Applicants are petitioning for exemptions for these acquisitions of control. These petitions also appear in Volume 5.

Motor Carrier Control. As a result of the proposed transaction, Southern Pacific will come under common control with Overnite, a wholly-owned subsidiary of UPC, and Union Pacific will come under common control with SPMT and PMT, wholly-owned motor carrier subsidiaries of SPT. A petition for exemption relating to these common control relationships is being filed concurrently herewith in Finance Docket No. 32760 (Sub-No. 8), and also appears in Volume 5.

Terminal Trackage Rights. Implementation of the settlement agreement will require operation by BN/Santa Fe over two segments of terminal track owned by KCS. These segments are located in Beaumont, Texas, and Shreveport, Louisiana. The use of these terminal facilities by BN/Santa Fe will be practicable and in the public interest, and will not impair KCS' ability to handle its own business. In Finance Docket No. 32760 (Sub-No. 9), Applicants, joined by BN/Santa Fe, are applying under 49 U.S.C. § 11103(a) for these terminal trackage rights. This terminal trackage rights application also appears in Volume 5.

Abandonments. In accordance with Decision No. 3, served September 5, 1995, Applicants are also submitting in Volume 5 merger-related abandonment applications, petitions for exemption, and notices of exemption with respect to seventeen MPRR, UPRR, SPT and DRGW line segments totalling approximately 588 miles.

Securities. The proposed issuance of securities and assumption of obligations or liability with respect to securities in connection with the transaction, and Applicants' request for a determination that the terms of the merger are fair to stockholders of UPC and SPR, are addressed in Section 1180.6(a)(1)(iv), "Nature and Amount of Any New Securities or Other Financial Arrangements," below.

Construction Projects. Construction projects to be undertaken in connection with the merger, such as siding extensions and connections, are described in the Operating Plan (in Volume 3 of the Application) and the Environmental Report (Volume 6). None of these projects requires Commission approval.

The names, business addresses and telephone numbers of Applicants are:

Union Pacific Corporation
Martin Tower
Eighth and Eaton Avenues
Bethlehem, Pennsylvania 18018
(610) 861-3200

Union Pacific Railroad Company
1416 Dodge Street
Omaha, Nebraska 68179
(402) 271-5000

Missouri Pacific Railroad Company
1416 Dodge Street
Omaha, Nebraska 68179
(402) 271-5000

SECTION 1180.6(a)(1)(iii)

PURPOSE

The purpose of the proposed transaction is to create a Western rail carrier that will be far more competitive and efficient, and will be a worthy competitor to BN/Santa Fe. The merger will greatly intensify Western rail competition, as set forth in the Verified Statements of Richard B. Peterson, Richard J. Barber, Robert D. Willig, Richard G. Sharp and Richard D. Spero in Volume 2 of the application (UP/SP-23). It will ensure long-term competitive and reliable rail transportation for the customers of UP, and particularly the customers of SP.

As detailed in the Summary of Benefits Exhibit in Appendix A to this volume, total public benefits will be $750.6 million in a normal year, including $583.8 million in operating efficiencies and cost savings, $76.0 million in net revenues from diverted traffic, and $90.8 million in shipper logistics savings.

There will be numerous service improvements, as discussed in the Verified Statement of Mark J. Draper and Dale W. Salzman in this volume, the Verified Statement of R. Bradley King and Michael D. Ongerth in Volume 3 of the application (UP/SP-24), and the Operating Plan, also in Volume 3.

The merged system will have shorter routes, expanded single-line service, faster schedules, more frequent and reliable service, and improved equipment supply. The merged system will be stronger financially, and will overcome the service problems and capital constraints that affect SP, as discussed in the Verified Statements of John T. Gray and Lawrence C. Yarberry in this volume.

SECTION 1180.6(a)(1)(iv)

NATURE AND AMOUNT OF ANY NEW SECURITIES OR OTHER FINANCIAL ARRANGEMENTS

The purchase by Acquisition of 25% of SPR's common stock and placement of that stock in a voting trust, and the proposed acquisition, upon approval of the primary application herein, of all remaining SPR common stock for a combination of UPC common stock and cash pursuant to the Merger Agreement, are described in Section 1180.6(a)(1)(i), "Summary of Transaction," above.

Effect on Fixed Charges. Borrowings in connection with the purchase by Acquisition of the remaining common stock of SPR will add modestly to UPC's fixed charges. As reflected in the pro forma financial statements (Exhibits 16, 17 and 18, in Appendices B, C and D to this volume), UPC will have no difficulty in absorbing these additional fixed charges.

Fairness Determinations. Pursuant to Schwabacher v. United States, 334 U.S. 192 (1948), Applicants request that the Commission determine that the terms provided in the Merger Agreement for the purchase of the common stock of SPR by Acquisition are fair to both the stockholders of UPC and the stockholders of SPR. The fairness of those terms to UPC shareholders is addressed in the Verified Statement of Stephan C. Month in this volume, and their fairness to SPR shareholders is addressed in the Verified Statement of James A. Runde in this volume.

SSW has a small number of minority equity holders, and the Federal Railroad Administration also holds certain SSW redeemable preference shares. At this time, Applicants are not requesting a fairness determination pursuant to Schwabacher with respect to the compensation that might be paid to SSW securityholders in connection with a merger of SSW into UPRR or MPRR, because tax and other considerations need to be resolved before it can be determined whether such a merger will occur, and if so on what terms. Should Applicants determine to carry out such a merger, they will request a finding from the Commission regarding the fairness of the terms or a declaratory order that no such finding is required.

Securities Exemptions or Authorizations. UPC will be required to pay approximately $600 million in additional cash consideration (including related fees and expenses) to complete the Merger. UPC intends initially to finance such amount through (a) the issuance of public or private long-term or short-term borrowings, which may be evidenced by securities ("the Debt Securities"), (b) the issuance of preferred stock or UPC common stock (the "Equity Securities") or, (c) the issuance of a combination of Debt Securities and Equity Securities. These security issuances may require authorization under 49 U.S.C. § 11301. Alternatively, UPC may initially finance the additional cash consideration under the Merger with borrowings under one or more new credit or other facilities to be established with various banks or other parties and/or certain existing credit facilities (the "Credit Facilities") under which the indebtedness borrowed will not be evidenced by notes or other securities subject to 49 U.S.C. § 11301. If the Credit Facilities are used initially to finance such amount, borrowings thereunder will be refinanced through the issuance of Debt Securities or Equity Securities or a combination thereof. The proceeds from the Debt Securities and/or Equity Securities may also be used to finance interest accrued on the Credit Facilities or the Debt Securities. Based on the amount of

SPR common stock outstanding on September 30, 1995, UPC will also be required to issue approximately 38 million shares of UPC common stock[6] in order to pay the stock consideration required to complete the Merger (together with the Debt Securities and Equity Securities, the "Securities").

As indicated in Section 1180.6(a)(1)(i), "Summary of Transaction," above, it is presently contemplated that, in order to consolidate the rail operations of UP and SP, SPR, SPT, SSW, SPCSL and DRGW will be merged with and into UPRR, though, as noted, a number of other methods of consolidating of these entities into the merged system, including the merger of some or all of them into MPRR or the lease of the assets or some or all of them to UPRR or MPRR, may be used. In the event of the merger of any of these entities into UPRR or MPRR, UPRR or MPRR will assume or otherwise succeed to obligations associated with certain debt securities or obligations related to securities then outstanding of said entities, to the extent permitted or required by applicable agreements and instruments and provided such obligations are not redeemed or retired at that time. As of October 31, 1995, SPR had outstanding $375 million in 9.375% Senior Notes maturing August 15, 2005, and SPT, SSW, SPCSL and DRGW had outstanding the obligations listed in Exhibit 19 in Appendix E to this volume (collectively, the "Assumed Obligations").

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[6] In the Merger Agreement, SPR agrees that no more than 158,316,398 shares of SPR common stock will be outstanding at the time of the Merger. If the maximum were outstanding, this would result in the issuance of approximately 39 million shares of UPC common stock.

Although not a carrier, UPC is required to "file applications under 49 U.S.C. §§ 11301 and 11302 for those issuances of securities and assumptions of obligations which may relate to or affect the activities of carrier subsidiaries."[7] UPRR, as a carrier, is also subject to such provisions with respect to the issuance of securities and assumption of debt obligations. To the extent Commission authorization may be required under 49 U.S.C. § 11301, Applicants are hereby requesting an exemption from such requirements for the issuance of the Securities in order to complete the Merger and for the assumption of or succession to the Assumed Obligations pursuant to subsidiary mergers or similar transactions. In the alternative, Applicants request that the Commission approve such issuance of the Securities and assumption of or succession to the Assumed Obligations pursuant to 49 U.S.C. § 11301.

Under 49 U.S.C. § 10505, the Commission is required to exempt a person or transaction from regulation where there is a finding that (a) such regulation is not necessary to carry out the rail transportation policy of 49 U.S.C. § 10101a, and (b) either regulation is not needed to protect shippers from the abuse of market power or the transaction is of limited scope. For the reasons set forth below, the issuance of the Securities in order to complete the Merger, and the assumption of or succession to the Assumed Obligations, clearly satisfy these criteria.

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[7] Union Pacific Corp., Union Pacific R.R. & Pacific Rail System, Inc. -- Control -- Missouri Pacific Corp. & Missouri Pacific R.R., 366 I.C.C. 459, 640 (1982), aff'd in part & remanded in part sub. nom. Southern Pacific Transportation Co. v. ICC, 736 F.2d 708 (D.C. Cir. 1984), cert. denied, 469 U.S. 1208 (1985).

The Commission has previously held that review of the proposed issuance of securities to finance the acquisition of a common carrier is not necessary to carry out the rail transportation policy. For example, in Finance Docket No. 31000 (Sub-No.1), Union Pacific Corp. -- Securities Exemption, Decision served Dec. 9, 1986 ("Overnite"), UPC petitioned the Commission for an exemption for securities to be issued to refinance borrowings under certain credit facilities in order to finance the acquisition of Overnite Transportation Company, a regulated motor carrier. In applying the first part of 49 U.S.C. § 10505, the Commission concluded:

> "A detailed review of the proposed securities issuances is not necessary to carry out the objectives of the rail transportation policy. Exemption will minimize the need for Federal regulatory control over the rail transportation system and ensure the development and continuation of a sound rail transportation system."

Overnite, p. 3. This same rationale was applied by the Commission in granting an exemption for the issuance of debt securities to finance Acquisition's tender offer for SPR Shares, and is equally applicable with respect to the Securities and Assumed Obligations. See Tender Offer, Decision served Aug. 21, 1995, p. 3.[8]

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[8] See also Finance Docket No. 32679, Union Pacific Corp. -- Securities Exemption, Decision served Apr. 6, 1995, p. 3; Finance Docket No. 32011, Union Pacific Corp. -- Control -- Skyway Freight Systems, Inc., Decision served Dec. 18, 1992, p. 5; Finance Docket No. 29518 (Sub-No. 1), Midwestern Rail Properties, Inc., Subsidiary of Chicago & North Western Transportation Co. -- Purchase (Portion) -- Chicago, Rock Island & Pacific R.R., Debtor; William M. Gibbons, Trustee -- Lines In Minnesota, Iowa & Missouri, Decision served June 20, 1983, p. 27; Finance Docket No. 30663, Chicago, Central & Pacific R.R. -- Purchase (Portion), Trackage Rights & Securities Exemption, Decision served Dec. 24, 1985, p. 12; Finance Docket No. 30755, Colorado & Eastern R.R. -- Securities Exemption, Decision served Dec. 13, 1985, p. 1; Finance Docket No. 30317, New York, Susquehanna & Western Ry, Pocono Northeast Ry, & IR, Inc. --

(continued...)

Each alternate criterion in the second part of 49 U.S.C. § 10505 is also met. The request for exemption is being filed as part of an application for approval of the common control of the rail carrier subsidiaries of SPR and UPC, and in considering this application the Commission will consider the need for protection of shippers. A separate analysis of the market impact associated with the issuance of the Securities and assumption of or succession to the Assumed Obligations would serve no useful purpose and therefore is not needed. Similarly, the issuance of the Securities and assumption of or succession to the Assumed Obligations are transactions of limited scope. The issuance of Securities will be used solely to pay the cash and stock consideration and related fees and expenses required to complete the Merger, while assumption of or the succession to the Assumed Obligations is simply the result of consolidating the rail operations of UP and SP pursuant to the subsidiary mergers. These securities transactions, in themselves, will not relate to or otherwise affect the activities of rail carriers or their competitors or customers.

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[8](...continued)
Exemption -- 49 U.S.C. 10901, 11301, & 10746, Decision served June 17, 1985, p. 4; Finance Docket No. 30662, Gulf & Mississippi R.R. -- Securities Exemption, Decision served June 13, 1985, p. 2; Finance Docket No. 30629, Staten Island Ry. -- Exemption From 49 U.S.C. 10901; Delaware Otsego Corp. & Staten Island Ry. -- Exemption From 49 U.S.C. 11301, Decision served Apr. 12, 1985, p.2; Finance Docket No. 30587, Delaware Otsego Corp. -- Securities Exemption, Decision served Jan 2, 1985, p. 1; Finance Docket No. 30575, Willamette Valley R.R. & Willamina & Grand Ronde R.R. -- Exemption From 49 U.S.C. 10901, 11301 & 11343, Decision served Dec. 26, 1984, p. 1; Finance Docket No. 30554, Iowa Interstate R.R. -- Lease & Operate -- Exemption, Decision served Oct 13, 1984, p. 6; Finance Docket No. 30501, Alabama Industrial R.R. -- Securities Exemption, Decision served June 18, 1984, p. 1; Finance Docket No. 30471, Chicago & North Western Transportation Co. -- Securities Exemption, Decision served May 14, 1984, p. 1.

A similar rationale was adopted by the Commission in Overnite, p. 3, as follows:

> "Securities issuances, standing alone, do not result in an abuse of market power. Although the securities will be used to facilitate the acquisition by UPC of control of Overnite, the issuance of the securities, as opposed to the underlying transaction, could not have the potential effect of placing the involved carriers in a position where they could exercise greater market power vis-a-vis the shippers they serve. Having found that there will be no abuse of market power resulting from the securities issuances, we are relieved from the necessity of considering the scope of the issuances. Nevertheless, we find that the securities issuances are limited in scope since they are but a single action designed solely to facilitate the control transaction."

The Commission employed the same reasoning in granting an exemption for the financing of Acquisition's tender offer for 25% of SPR's common stock, and there is no reason to depart from this approach in considering the exemption requested herein. Tender Offer, p. 3.[9]

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[9] See also Finance Docket No. 32679, Union Pacific Corp. -- Securities Exemption, Decision served Apr. 6, 1995, p. 3; Finance Docket No. 32011, Union Pacific Corp. -- Control -- Skyway Freight Systems, Inc., Decision served Dec. 18, 1982, at p. 5; Finance Docket No. 30755, Colorado Eastern R.R. -- Securities Exemption, Decision served Dec. 13, 1985, p. 1; Finance Docket No. 30317, New York, Susquehanna & Western Ry., Pocono Northeast Ry., & IR, Inc. -- Exemption -- 49 U.S.C. 10901, 11301, & 10746, Decision served June 17, 1985, p. 4; Finance Docket No. 30662, Gulf & Mississippi R.R. -- Securities Exemption, Decision served June 13, 1985, p. 2; Finance Docket No. 30614, Wisconsin & Southern R.R. -- Exemption From 49 U.S.C. 11301, Decision served May 2, 1985, p. 2; Finance Docket No. 30629, Staten Island Ry. -- Exemption From 49 U.S.C. 10901; Delaware Otsego Corp. & Staten Island Ry. -- Exemption From 49 U.S.C. 11301, Decision served April 12, 1985, p. 2; Finance Docket No. 30587, Delaware Otsego Corp. -- Securities Exemption, Decision served Jan. 2, 1985, p. 1; Finance Docket No. 30575, Willamette Valley R.R. & Willamina & Grand Ronde R.R. -- Exemption From 49 U.S.C. 10901, 111301 & 11343, Decision served Dec. 26, 1984, p. 1.

In the alternative, if an exemption from the requirements of 49 U.S.C. § 11301 is not granted, the Commission should authorize the issuance of the Securities and the assumption of or succession to the Assumed Obligations. Because the issuance of the Securities and the assumption of or succession to the Assumed Obligations will be directly related to the primary application, the information supporting approval of this request is set forth herein. See 49 C.F.R. § 1175.1(b).

Issuance of the Securities is required in order to complete the Merger, and assumption of or succession to the Assumed Obligations will merely be a result of effecting the related subsidiary mergers in order to consolidate the rail operations of UP and SP. The information set forth in this application demonstrates that such issuance and succession to obligations is for a lawful object within the corporate purposes of UPRR and UPC and reasonably appropriate for those purposes; is compatible with the public interest; is appropriate for and consistent with the proper performance of service to the public as common carriers by all the carriers involved; and will not impair the financial ability of any such carrier to provide such service. All requirements for approval under 49 U.S.C. § 11301 are thus met. Similar requests have been granted in prior control proceedings.[10] Applicants therefore request that the Commission make the appropriate statutory findings and grant such approval to the full extent required.

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[10] See, e.g., Finance Docket No. 32549, Burlington Northern, Inc. & Burlington Northern R.R. -- Control & Merger -- Santa Fe Pacific Corp. & Atchison, Topeka & Santa Fe Ry., Decision served Aug. 23, 1995, p. 106; Union Pacific Corp., Union Pacific R.R. & Missouri Pacific R.R. -- Control -- Missouri-Kansas-Texas R.R., 4 I.C.C.2d 409, 517-18 (1988).

SECTION 1180.6(a)(2)

PUBLIC INTEREST JUSTIFICATIONS

The proposed transaction, which is endorsed by over 1,300 parties, including 1,066 shippers, over 200 public officials, and nearly 100 shortline railroads, is clearly in the public interest. Quantified public benefits will be in excess of $750 million per year. The merger will greatly intensify rail competition for shippers throughout the West, and SP shippers will also gain the assurance of long-term, high-quality rail service. The rail mode will become more competitive against truck and water carriers, rail customers will penetrate new markets, economic activity will increase, and resources will be used more efficiently.

SECTION 1180.6(a)(2)(i)

EFFECTS ON COMPETITION

The UP/SP merger, together with the settlement agreement with BN/Santa Fe, will greatly intensify rail competition in the West. The merger will yield shorter routes, expanded single-line service, greater capacity, better equipment supply, faster and more reliable service, and lower costs -- all of which will enhance the competitiveness of the merged system. A merged UP/SP will be able to provide genuine competition to BN/Santa Fe, which is much larger than either UP or SP and has better routes and greater competitive capabilities in many key markets. Also, the merger will increase the competitiveness of rail services for SP customers by overcoming SP's service problems and capital constraints and providing an assurance of long-term, high-quality rail service for those customers. The settlement will strengthen competition still further by providing for all customers served by only UP and SP today two stronger competitors than they have now, and by creating entirely new competition in such important markets as the I-5 Corridor between Seattle and Los Angeles.

The effects of the merger and the settlement on competition are addressed by a number of witnesses. Perhaps the strongest evidence of all comes from the more than 1,000 shippers who strongly endorse the merger, stressing that it will bring about genuine, vigorous rail competition in the West and rectify the impaired competitive circumstance presented by a very strong BN/Santa Fe competing with a less competitive UP and a weak SP. Those statements appear in Volume 4, Parts 1 through 4 of the application (UP/SP-25).

Richard B. Peterson and Richard J. Barber, whose statements are in Volume 2 of the application (UP/SP-23), provide comprehensive analyses of the competitive issues, examining the many ways in which competition will be enhanced (through shorter routes, new single-line service, overcoming bottlenecks, greater capital investment, lower costs, etc.), and showing that competition will be stronger for shippers in every state served by UP or SP, for traffic to and from Canada and Mexico, for every major commodity group handled by the merging railroads, and in every rail corridor in which the merging railroads operate.

These witnesses show that competition will be stronger for both "2-to-1" shippers (shippers who now have rail service from UP and SP and no other railroad, and will be served by BN/Santa Fe under the settlement agreement), and all other shippers, including in particular those who go from three serving railroads to two as a result of the merger. With respect to the latter shippers, Mr. Peterson and Mr. Barber explain why competition between UP/SP and BN/Santa Fe, two financially-sound rail systems with comprehensive coverage of the West, will be much stronger than competition among a powerful BN/Santa Fe, a smaller UP, and a weak SP that will become even weaker relative to its two competitors in the years to come. Mr. Peterson reviews every location where shippers will go from three rail options to two, and shows that such traffic is a small fraction of all Western rail traffic, and that for most of it SP is either not a competitor at all or is a weak competitor. Mr. Barber and Mr. Peterson also explain why two strong rail systems with wide networks will compete intensely, and Mr. Peterson documents numerous examples that make this clear, including the competition for coal traffic in the Powder River Basin of Wyoming, competition for Seattle-Chicago intermodal traffic, and sharp rate declines in markets that went from three railroads to two following the merger of UP and MKT in 1988. Professor Robert G. Willig, whose statement is in Volume 2, extensively addresses the "3-to-2" issue as well, showing that "3-to-2" shippers will benefit from stronger competition and that there is no risk of "collusion" between UP/SP and BN/Santa Fe.

In addition, Mr. Peterson and Mr. Barber address source competition. They show that the merger will increase source competition, and that there is no basis for concern about any harmful loss of source competition for any commodity. Each of these witnesses gives extensive attention to Gulf Coast chemicals, and finds that shippers of those products will enjoy improved service and equipment supply as a result of the merger, and that their traffic will continue to be subject to intense competition. Richard D. Spero, whose statement is in Volume 2, also addresses competitive impacts on chemicals traffic, and Richard F. Sharp, whose statement is also in Volume 2, addresses competitive impacts on coal traffic.

The settlement agreement with BN/Santa Fe is addressed by Mr. Peterson, and also by John H. Rebensdorf, whose statement is in this volume. Mr. Rebensdorf describes the vigorous negotiations that led to the agreement, and explains how its compensation and service terms will ensure strong competition. A copy of the settlement agreement is attached to Mr. Rebensdorf's statement.

Under the settlement agreement, UP/SP will grant trackage rights to BN/Santa Fe over a total of 3,968 miles of UP and SP track and sell 330 miles of track to BN/Santa Fe, and BN/Santa Fe will grant trackage rights to UP/SP over 376 miles of BN/Santa Fe track. Every "2-to-1" shipper will be served by BN/Santa Fe, and additional competition will be introduced at numerous points. BN/Santa Fe will gain competitive access to well over $1 billion in traffic.

Briefly, the settlement agreement contains the following provisions:

<u>West Coast-Intermountain</u>

- BN/Santa Fe will operate over SP and UP lines between Denver, Colorado, and Oakland, California, thereby gaining a through Central Corridor route. BN/Santa Fe will serve Provo, Salt Lake City, Ogden, Reno, and various other points in Utah and Nevada. BN/Santa Fe will operate over both UP's "Feather River" line and SP's Donner Pass line.

- BN/Santa Fe will purchase UP's "Inside Gateway" line in Northern California between Keddie and Bieber, linking its Oregon lines with its California network and producing a second truck-competitive single-line route in the I-5 Corridor between Seattle and Los Angeles.

- BN/Santa Fe will serve the Oakland-San Jose area via UP trackage rights.

- BN/Santa Fe will improve its access to the Port of Oakland over SP trackage rights.

- UP/SP will work with BN/Santa Fe to assure uninterrupted rail service to the Ports of Long Beach and Los Angeles while the Alameda Corridor project is constructed.

- UP/SP will have trackage rights in Oregon over BN/Santa Fe between Bend and Chemult, Oregon, to connect Eastern Oregon and Washington directly with SP's line to California.

- UP/SP will gain overhead trackage rights over BN/Santa Fe's Mojave to Barstow, California, line, shortening UP/SP's route from the Bakersfield/Mojave area to Utah.

- BN/Santa Fe will enter into a proportional rate agreement with UP/SP over the Portland gateway which will allow UP/SP to compete with BN/Santa Fe on business originating or terminating at BN/Santa Fe points and junctions in an area extending from Western Montana and Canada to the Columbia River, and destined to or originating in an area extending from Oregon to West Texas.

Texas-Louisiana

- BN/Santa Fe will operate over UP's line between Houston and Brownsville, Texas.

- BN/Santa Fe will be granted trackage rights on SP's line between Houston and Iowa Jct., Louisiana, near Lake Charles. The remaining SP line east from Iowa Jct. to Avondale, Louisiana, near New Orleans, will be sold to BN/Santa Fe, with UP/SP retaining full trackage rights. This will give BN/Santa Fe a through route between Houston and New Orleans, and will provide two-railroad competition to shippers on the Southern Louisiana line that are now exclusively served by SP.

- BN/Santa Fe will gain access to major petrochemical plants at Mont Belvieu, Baytown, Amelia and Orange, Texas.

- BN/Santa Fe will operate over various UP and SP lines in Texas, including San Antonio-Sealy, San Antonio-Eagle Pass, Taylor-Round Rock and Waco-Taylor-Smithville.

- UP will sell its Dallas-Waxahachie line to BN/Santa Fe, retaining exclusive rights to serve on-line customers.

Houston-Memphis

- BN/Santa Fe will operate over SP's line between Houston and Fair Oaks, Arkansas, and over UP's line between Fair Oaks and Memphis, Tennessee. This will give BN/Santa Fe a direct through route between Houston and Memphis.

Access

- BN/Santa Fe will grant UP/SP improved access to the BN/Santa Fe Chicago-Kansas City line at points west of Chicago, and to dock and port facilities in Portland, Seattle and Superior, Wisconsin.

The various rights under the settlement agreement are depicted on Map #2 to Mr. Peterson's statement, in the map pocket in Volume 2 of the application.

SECTION 1180.6(a)(2)(ii)

FINANCIAL CONSIDERATION;
TRAFFIC, REVENUE AND EARNINGS INCREASES; OPERATING ECONOMIES

Financial Consideration. See Section 1180.6(a)(1)(iv), "Nature and Amount of Any New Securities or Other Financial Arrangements," above.

Increases in Traffic, Revenues and Earnings. As shown in the Summary of Benefits Exhibit in Appendix A to this volume, Applicants expect annual benefits, in a normal year, of $659.8 million, as a result of new traffic ($76.0 million) and efficiencies and cost reductions ($583.8 million). Applicants also calculated annual shipper logistics savings of $90.8 million, which, as discussed in the Verified Statement of Paul O. Roberts in this volume, represents only a small part of the benefits to shippers from the merger.

The figure of $76.0 million for additional net earnings from new traffic reflects gross revenues from the traffic less the costs of handling it. Additional traffic would be attracted to the merged system by its improved service, faster schedules, new train services, expanded single-line service, and lower costs. Mr. Peterson, whose verified statement is in Volume 2 of the application (UP/SP-23), conducted a Traffic Study that evaluated traffic gains from all sources other than diversions of dry van truck traffic to

UP/SP intermodal service, and Mr. Peterson also evaluated traffic losses to BN/Santa Fe under the settlement. Truck-to-UP/SP-intermodal diversions were evaluated by Messrs. Ainsworth and Roberts, whose statements are in this volume.

The traffic gains projected by Mr. Peterson have a number of elements. First, as a result of its expanded single-line service, the merged system will secure extended hauls on traffic accounting for $90.5 million in annual gross revenues. Second, the merged system will gain intermodal traffic from other railroads accounting for $177.9 million in annual gross revenues. Third, the merged system will gain, through additional new marketing opportunities, traffic accounting for $241.7 million in annual gross revenues; these new marketing opportunities include carload traffic moving on other railroads ($80.2 million), traffic moving by truck ($65.9 million), traffic moving by water ($32.2 million), and traffic that will newly move as a result of the improved service of the merged system (e.g., additional export coal to Pacific Rim countries) ($63.4 million).

Messrs. Ainsworth and Roberts, using their respective methodologies, analyzed flows of dry van truck traffic that will be diverted from truck to UP/SP intermodal service in corridors where the merger will result in intermodal service improvements. Their joint estimate was that the merged system, by improved service, faster schedules, new train services, terminal synergies and lower costs, would divert traffic accounting for $158.1 million in annual gross revenues.

Offsetting these gains are projected losses to BN/Santa Fe as a result of the rights granted by UP/SP to BN/Santa Fe in the settlement. Mr. Peterson determined that these losses would total $444.5 million in annual gross revenues.

Economies to be Effected in Operations. The merger will result in $583.8 million in annual gains from efficiencies and cost reductions. The various steps that will be taken to consolidate and coordinate the operations of Applicant carriers and produce these cost savings are set forth in detail in the Operating Plan (Exhibit 13) in Volume 3 of the application (UP/SP-24), and discussed in the verified statement of Messrs. King and Ongerth in that volume. This Plan contemplates that UP and SP will (a) streamline and consolidate operations at their major common terminals; (b) combine terminal and station facilities at a number of common points; (c) establish new blocks and new trains to improve service and efficiency; and (d) pursue numerous coordinations and consolidations of transportation, mechanical, engineering, information, purchasing, customer service, and other operating and marketing functions and activities. In addition, traffic will be handled more efficiently, in many instances by using shorter, faster routes. The combined car fleet will be managed on a coordinated basis to reduce empty movements and improve equipment utilization. Economies will also be achieved in the Applicant carriers' administrative functions. In particular, SP departments will be combined with their UP counterpart departments, thus permitting more efficient utilization of existing personnel and making possible a reduction in overall staff and office space. See Section 1180.6(a)(2)(iv), "Effect on Adequacy of Transportation," below.

SECTION 1180.6(a)(2)(iii)

EFFECT OF INCREASE IN TOTAL FIXED CHARGES

With respect to the effect on fixed charges of borrowings in connection with Acquisition's purchase of all remaining SPR stock, see Section 1180.6(a)(1)(iv), "Nature and Amount of Any New Securities or Other Financial Arrangements," above.

The consolidation of UP and SP operations will require capital expenditures for various purposes, including, among other things, the upgrading of lines and yards and the construction of new facilities, connections and sidings. The increase in net traffic revenues and the efficiencies that will be realized by the consolidated system will offset the costs of these investments, and the merged system will have no difficulty in financing them, as reflected in the pro forma financial statements, Exhibits 16, 17 and 18 in Appendices B, C and D in this volume. The consolidated system will have much better coverage of its fixed charges than SP has, or can be expected for the foreseeable future to have, standing alone.

SECTION 1180.6(a)(2)(iv)

EFFECT ON ADEQUACY OF TRANSPORTATION

The proposed transaction will improve the adequacy of rail transportation service to the public. The transaction will provide shippers faster, more reliable and more efficient service that will be more responsive to their needs. The expanded rail system will be able to offer its customers, and particularly SP shippers, important service benefits that the merging railroads cannot provide as independent carriers. Shippers will realize these service benefits as a result of both the improved marketing capabilities and the improved operating capabilities of the consolidated system. The consolidation will also ensure the long-term provision of high-quality service to SP shippers.

The UP/SP merger will provide more significant opportunities to improve service quality, reliability and efficiency than any rail merger proposed since the Staggers Act. A General Motors executive was quoted recently as calling for "quantum-leap improvements" in rail service and transit time. The UP/SP merger will be a quantum leap toward eliminating delays, improving reliability (especially on SP routes), and addressing congestion that impairs service today on both railroads. On some routes, service will be considerably faster. On some, it will be more frequent. On virtually every route, it will be more reliable. A primary objective of those who developed the UP/SP Operating Plan (Exhibit 13) was to coordinate routes, facilities, equipment and work forces so that UP/SP can do more for its customers more efficiently and on time. Specifically, the Operating Plan calls for:

New and Improved Routes. UP/SP will combine routes of the two companies to create new through routes, coordinate routes to provide faster and more reliable service, and upgrade routes to eliminate existing restraints on service quality. For example, Santa Fe has for years set the service standard, particularly for time-sensitive traffic, between Chicago and California, and the BN/Santa Fe merger created new single-line routes between the West Coast and St. Louis, Memphis and other points. UP and SP are handicapped in many corridors by route circuity and, in the case of SP, capital constraints. By combining and upgrading routes, UP/SP will be very competitive in every Western corridor.

The UP/SP combined route between Chicago and Oakland will be the new service leader. By spending more than $300 million on upgrades and capacity increases, UP/SP will have a faster, more competitive route between Chicago and Los Angeles. UP and SP will combine the UP line east of El Paso with the SP line west of El Paso, and invest several hundred million dollars, to create a new high-speed route from Memphis through Dallas/Fort Worth to the West Coast. UP and SP will form the first direct single-line rail route ever between Seattle and Los Angeles, and have agreed to grant BN/Santa Fe the rights necessary to create the second such route. UP and SP will combine their lines to provide competitive service between Chicago and points such as Salina, Wichita and Oklahoma City. The settlement with BN/Santa Fe gives it a new and fast route from New Orleans to Houston, San Antonio and California.

Many UP/SP route modifications will improve reliability and reduce congestion. UP/SP will institute directional running on parallel routes in Arkansas and Texas. By running most trains south on SP lines and most trains north on UP lines, UP/SP will avoid hundreds of train meets every day, save huge amounts of transit time, and speed operations. Between New Orleans and Houston, and between Houston and San Antonio, slower trains will take one route and faster trains another so that both will run faster and more reliably. UP/SP will assign most intermodal traffic to one Chicago-Southern California route and most manifest traffic to another, improving the handling of both. By using more direct routes and creating new routes that avoid congestion points, such as a bypass that avoids Kansas City, UP/SP will use capacity more efficiently and reduce delays.

UP/SP routes will be shorter than UP or SP routes. Many major mileage reductions will come from combining parts of UP and SP routes to create a new route that is much shorter than either railroad's present route. These include:

- reduction in SP's mileage between Oakland and Chicago by 388 miles, and in UP's by 189 miles;
- reduction in SP's mileage between Los Angeles and Dallas by 233 miles, and in UP's by 999 miles;
- reduction in SP's mileage between Los Angeles and Memphis by 283 miles, and in UP's by 580 miles;
- reduction in SP's mileage between Oakland and Dallas by 283 miles, and in UP's by 733 miles;
- reduction in SP's mileage between Oakland and Memphis by 233 miles, and in UP's by 315 miles;
- reduction in SP's mileage between Portland and Dallas by 497 miles, and in UP's by 249 miles;
- reduction in UP's mileage between Seattle and Dallas by 249 miles;
- reduction in SP's mileage between Portland and Houston by 262 miles, and in UP's by 249 miles;
- reduction in UP's mileage between Seattle and Houston by 249 miles;
- reduction in SP's mileage between Portland and New Orleans by 353 miles, and in UP's by 171 miles;
- reduction in UP's mileage between Seattle and New Orleans by 171 miles;
- reduction in SP's mileage between Denver and New Orleans by 115 miles, and in UP's by 367 miles;
- reduction in UP's mileage between Seattle and Oakland by 1,079 miles;
- reduction in UP's mileage between Seattle and Los Angeles by 566 miles;
- reduction in UP's mileage between Spokane and Oakland by 781 miles; and

- reduction in UP's mileage between Spokane and Los Angeles by 311 miles.

In addition, in many other important corridors, UP and SP both have routes and the route of one of the merging railroads is much longer than the route of the other. With the UP/SP merger, shippers now using the circuitous route in these corridors will enjoy substantial mileage savings for their traffic, and the combined system will be able to offer better service and compete more effectively. The following table from Mr. Peterson's statement shows some of these mileage savings:

MILEAGE SAVINGS WHERE UP OR SP ROUTE IS CIRCUITOUS

Corridor	UP Miles	SP Miles	Savings
SP ROUTE SHORTER THAN UP ROUTE			
Los Angeles-Kansas City	1,914	1,752	162
Los Angeles-St. Louis	2,199	2,037	162
Los Angeles-Houston	2,692	1,635	1,057
Los Angeles-New Orleans	2,870	1,981	889
Oakland-Salt Lake City	932	815	117
Oakland-Denver	1,544	1,382	162
Oakland-Houston	2,851	2,059	792
Oakland-New Orleans	3,029	2,406	623
Denver-Houston	1,513	1,073	440
Denver-Dallas	1,280	840	440
Portland-Oakland	1,830	741	1,089
Portland-Los Angeles	1,671	1,095	576
Oakland-Los Angeles	1,689	467	1,222
Chicago-Kansas City	576	466	110
UP ROUTE SHORTER THAN SP ROUTE			
Los Angeles-Denver	1,385	1,742	357
Los Angeles-Salt Lake City	782	1,170	388
Salt Lake City-Chicago	1,472	1,656	184
Portland-Chicago	2,233	2,999	766
Chicago-New Orleans	1,106	1,454	348
Portland-Kansas City	1,893	2,557	664
Kansas City-Dallas	545	646	101

Corridor	UP Miles	SP Miles	Savings
Kansas City-New Orleans	956	1,203	247
Portland-St. Louis	2,178	2,842	664
Portland-Memphis	2,512	3,235	723
St. Louis-New Orleans	844	1,170	326
Portland-Denver	1,364	1,919	555
Memphis-New Orleans	612	903	291
Dallas-New Orleans	489	603	114

Reduced Terminal Delay. The UP/SP merger will improve operations through terminals and avoid delay in numerous ways. First, by combining UP and SP yards at virtually all common points, UP/SP will eliminate time-consuming interchanges that today delay more than 300,000 shipments annually. Applicants expect to save 24 hours per shipment, with similar savings for empty cars. Second, by combining traffic volumes into new trains and new blocks that will operate further without en route switching, thousands of shipments daily will be speeded toward their destinations. These include shipments that SP now switches in St. Louis, which will instead move on run-through trains or in through blocks to Cincinnati (CSX), Detroit (NS), Indianapolis (Conrail), Columbus (Conrail), Bellevue, Ohio (NS), Pittsburgh (Conrail), and Albany (Conrail), among other points. Further south, UP/SP will create new run-through trains and blocks for numerous points throughout the Southeast, avoiding en route switching for most UP and all SP shipments. On the UP/SP system, through trains and blocks will run around terminals traditionally used for switching, such as Houston, North Platte, Little Rock, Pine Bluff and Kansas City.

Terminal operations will also be improved through coordinated operations and capital investments across the system. With directional running on UP and SP tracks in Arkansas, the huge UP hump yard in North Little Rock and the big SP hump yard in Pine Bluff will be used almost entirely for directional blocking, thereby employing the combined yard capacity far more efficiently. SP's Armourdale Yard in Kansas City, which is barely adequate for the traffic it now handles, will be converted into a large new intermodal facility and a staging facility for bulk trains, reducing Kansas City congestion and improving service. UP/SP will construct a new intermodal facility in the "Inland Empire," the growing east end of the Los Angeles Basin. Intermodal facilities will be expanded in Los Angeles, Portland, Oakland and a number of other cities. Freight yards will be combined, improved and coordinated across the UP/SP system.

More Reliable Service. Each of the new and improved routes and improvements in terminal operations described above will improve the reliability of UP/SP service compared to today's UP and SP services. Reliability will also be enhanced in a number of other ways. UP's state-of-the-art Transportation Control System will be expanded to include SP territory, which today lacks the essential technological support needed for fully reliable, scheduled operations. UP's computerized train dispatching system and its ATCS system, which permits customer service representatives to transmit customer service requests to crews on moving trains on a real-time basis, will be expanded to cover SP lines. A major improvement in reliability will result from UP/SP's ability to shift traffic from one route to another so that essential track maintenance can be carried out without stopping the trains or stopping the track workers. A combination of technological support, access to capital, UP maintenance standards, and improved routes will bring the reliability of SP service, which has suffered in recent years, to a much higher level.

Improved Equipment Utilization and Availability. Faster movement of traffic, through both improvements in terminal operations and the shifting of traffic to different routes, is only one of a number of ways in which UP and SP will be able to make more efficient use of their equipment for the ultimate benefit of shippers and the public. Following consolidation, UP's and SP's cars will constitute a common fleet. So long as they remain on the UP/SP system, they will not be constrained by car service rules and directives, which often limit the use of empty cars, or by car-hire concerns, which cause railroads to use freight cars inefficiently. The merged system will be able to reposition UP equipment efficiently between the Los Angeles Basin and the San Francisco Bay area, between California and the Pacific Northwest, and between California and Texas, and to reposition SP equipment to UP points such as Seattle/Tacoma. By exploiting the differing seasonal equipment usage patterns of the UP and SP systems, the merged system will get much more use out of all its cars -- the equivalent of acquiring a larger fleet.

Savings From Facility Consolidations and Lower Overheads. The merged system will be able to realize large savings by consolidating yards and functions at Stockton, Denver, El Paso, Beaumont, Shreveport, Fort Worth and other points. Maintenance and repair of locomotives and cars will be consolidated and streamlined. Substantial savings will come from eliminating duplicative staff and duplicative accounting, dispatching and customer service systems, and by improving the productivity of activities in these areas. Still further savings will be realized from bulk purchasing and application on the entire combined system of UP's more effective procurement practices.

More, and More Productive, Capital Investments. The combined UP/SP system will be able to target its available capital at investments that will maximize service and competitive benefits. Today, each system, and particularly SP, faces tight capital constraints. Merger with UP will give SP access to the capital it vitally needs to improve the quality of service to its shippers. Combining the two railroads will allow each marginal dollar of capital to be used in a way that yields far more in terms of capacity and efficiency. Existing assets will be used more efficiently, freeing capital for upgrading crucial lines such as SP's Tucumcari line, UP's Fort Worth-El Paso line, and SP's El Paso-Colton route across the Southern Corridor. More capital can also be directed to building facilities that are needed for entry into new markets, such as the new "Inland Empire" intermodal facility in Southern California that will allow the combined system to compete for less-than-truckload ("LTL") freight and other expedited intermodal traffic.

SECTION 1180.6(a)(2)(v)

EFFECT ON EMPLOYEES

The proposed transaction will result in creation, abolition or transfer of numerous positions on UP and SP. Overall, the impact of the consolidation will be to add 1,522 positions, eliminate 4,909 positions, and transfer 2,132 positions. The specific impacts are shown in the Labor Impact Exhibit. In addition, as explained in the Appendix to the Labor Impact Exhibit, certain dispatching, clerical and non-agreement positions in Denver, Omaha and St. Louis may be transferred, but no decision has yet been made regarding those transfers.

Applicants are unable to quantify employment effects if the merger were to be disapproved. But it is clear that without the merger, employees of both carriers will be adversely affected as the new BN/Santa Fe system succeeds in attracting traffic from UP and SP. SP employees may also be adversely affected because of SP's limited access to capital and the difficulty of maintaining the full scope of its present services in the face of the stronger competition from BN/Santa Fe. Over the long term, the merged system's financial stability, improved routes, greater efficiency and enhanced ability to compete against BN/Santa Fe offers the best protection for employees and the greatest prospect of increased employment.

Agreement employees whose positions are adversely affected by the consolidation will be expected first to exercise their seniority rights. Where appropriate, adversely affected employees will be entitled to labor protective conditions under applicable law. For purposes of evaluating the financial effects of the merger, Applicants assumed that New York Dock and other applicable precedents would apply, and that employees would receive payments on a basis similar to UP's experience in recent consolidation proceedings. No employees of Applicants' motor carrier affiliates will be adversely affected by the consolidation, and such employees should not be granted labor protection in any event. As of the date of this application, no employee protection agreements have been reached with applicable labor organizations.

SECTION 1180.6(a)(2)(vi)

EFFECT OF INCLUSION OF OTHER RAILROADS

The inclusion of other railroads in the proposed transaction is not contemplated and would not be in the public interest. As shown in the Verified Statement of Richard B. Peterson in Volume 2 of the Application (UP/SP-23), the proposed transaction will result in only modest losses of freight revenues by other railroads. Since these revenue losses will be offset by cost reductions, the net revenue impact on affected railroads will be even smaller. In no instance will essential services of any railroad be threatened.

SECTION 1180.6(a)(3)

OTHER SUPPORTING STATEMENTS

Other supporting statements are the statements of (a) shippers, (b) public officials, (c) shortline railroads, (d) various officers of Applicants, and (e) expert witnesses. Support statements have been submitted by over 1,300 parties. Statements by 1,066 supporting shippers appear in Volume 4, Parts 1 through 4, of the application (UP/SP-25). Volume 4, Part 5, contains support statements from more than 200 public officials, together with 41 support statements from shortline railroad firms representing nearly 100 shortlines. The statements of Applicants' officers and expert witnesses appear in this volume and in Volumes 2 (UP/SP-23) and 3 (UP/SP-24) of the Application. Verified statements in support of merger-related abandonments appear in Volume 5.

SECTION 1180.6(a)(4)

OPINIONS OF COUNSEL

The opinions of Applicants' counsel that the transactions described in this application, including the primary docket, related sub-dockets, and related abandonment dockets, satisfy the requirements of law and will be legally authorized and valid if approved by the Commission appear at the end of the narrative in this volume of the application, after the prayer for relief.

SECTION 1180.6(a)(5)

LISTS OF STATES

The following are the states in which any part of the real property of each Applicant carrier is situated. MPRR owns some real property and mineral interests in Indiana, but does not operate in that state. SPT owns some real property in Colorado, Kansas, Oklahoma and Tennessee, but does not operate in those states.

UPRR	MPRR	SPT	SSW	DRGW	SPCSL
California	Arkansas	Arizona	Arkansas	Colorado	Illinois
Colorado	Colorado	California	Missouri	Utah	
Idaho	Illinois	Colorado	Texas		
Iowa	Indiana	Kansas	Illinois		
Kansas	Kansas	Louisiana	Kansas		
Michigan	Louisiana	Nevada	Louisiana		
Minnesota	Missouri	New Mexico			
Missouri	Nebraska	Oklahoma			
Montana	Oklahoma	Oregon			
Nebraska	Tennessee	Tennessee			
Nevada	Texas	Texas			
Oregon		Utah			
South Dakota					
Utah					
Washington					
Wisconsin					
Wyoming					

SECTION 1180.6(a)(6)

MAP - EXHIBIT 1

Applicants are submitting as Exhibit 1 a railroad map of the United States showing the principal lines of all railroads in the continental United States, all lines of the Applicant carriers in true relationship to each other (with the lines of the Applicant carriers in colors -- UP in red and SP in blue), shortline connections, other rail lines in the territory and the principal geographic points in the region traversed. This map appears in the pocket at the end of this volume.

SECTION 1180.6(a)(7)(i)

NATURE AND TERMS OF PROPOSED TRANSACTION

See Section 1180.6(a)(1)(i), "Summary of Transaction," above.

SECTION 1180.6(a)(7)(ii)

AGREEMENTS - EXHIBIT 2

Copies of the Agreement and Plan of Merger, dated as of August 3, 1995, as amended, by and among UPC, Acquisition, UPRR and SPR, and of clarifying agreements, are contained in Exhibit 2 in Volume 7 of the application (UP/SP-28). Copies of the settlement agreement dated as of September 25, 1995, between Union Pacific and Southern Pacific, on the one hand, and BN/Santa Fe, on the other hand, and the related supplemental agreement dated November 18, 1995, are attached to the Verified Statement of John H. Rebensdorf in this volume.

SECTION 1180.6(a)(7)(iii)

DESCRIPTION OF RESULTING COMPANY

See Section 1180.6(a)(1)(i), "Summary of Transaction," and 1180.6(a)(1)(iv), "Nature and Amount of Any New Securities or Other Financial Arrangements," above. UPC and UPRR are Utah corporations. The capitalization of UPC and UPRR following the proposed transaction is depicted in the pro forma balance sheets in Appendix B to this volume.

SECTION 1180.6(a)(7)(iv)

COURT ORDER - EXHIBIT 3

Not applicable. No Applicant is a trustee, receiver, assignee or personal representative of a real party in interest.

SECTION 1180.6(a)(7)(v)

PROPERTY INCLUDED IN PROPOSED TRANSACTION

The proposed transaction involves the purchase by Acquisition of all of the common stock of SPR and consolidation of all of the rail operations of UP and SP.

SECTION 1180.6(a)(7)(vi)

DESCRIPTION OF LINES

A brief description of the principal lines of UP and SP follows. The map in the pocket at the end of this volume depicts the principal points of interchange of each of the Applicant railroads.

UPRR

UPRR operates approximately 13,646 miles of railroad in the Western United States. This consists of approximately 9,820 miles of mainline and approximately 3,826 miles of branch line. The mainlines run from the Pacific Coast ports and terminals of Seattle, Portland, Oakland and Los Angeles to Chicago and Missouri River gateways including Kansas City and Omaha/Council Bluffs. Routes over mainlines extend from the Pacific Northwest through Washington, Oregon, Idaho and Utah to Ogden/Salt Lake City, from Northern California through Nevada and Utah to Ogden/Salt Lake City, and from Southern California through Nevada and Utah to Ogden/Salt Lake City. UPRR's double-track mainline connects Omaha/Council Bluffs at the east with Ogden/Salt Lake City at the west, and runs through Nebraska, Colorado, Wyoming and Utah.

With the recent merger of CNW into UPRR, UPRR's lines also run from Chicago to Milwaukee and thence to Winona, Wisconsin, and (via trackage rights over WC) Duluth/Superior, and from Duluth/Superior to Minneapolis/St. Paul (via trackage rights over BN) and thence to Des Moines and Kansas City. In addition, UPRR transports low-sulfur coal from the Southern Powder River Basin in Wyoming in unit trains. These are principally destined for electric generating plants, the majority of which are located in the Southwest and Midwest. UPRR also provides commuter service in the Chicago area under a purchase-of-service contract with Metra. A UPRR line extends from a point near Green Bay, Wisconsin, to Ishpeming and Escanaba, Michigan, while UPRR's Milwaukee-to-St. Louis line passes through Chicago. UPRR has a considerable network of branch lines in Iowa and Southern Minnesota, and a line extending from Northwestern Nebraska into South Dakota and Wyoming.

MPRR

MPRR operates approximately 8,361 miles of railroad in the Midwestern and the Southwestern United States. This consists of approximately 7,508 miles of mainline and approximately 853 miles of branch line. While UPRR's lines basically form east-west routes, MPRR's lines principally form north-south routes. MPRR's lines connect the major Midwest gateways of Chicago, Omaha, St. Louis, Memphis and Kansas City with the principal ports and the terminals of New Orleans and Lake Charles, Louisiana, and Galveston, Houston, Beaumont, Corpus Christi, Brownsville and Laredo, Texas.

MPRR also serves important interior Texas points including Dallas, Fort Worth, San Antonio, Austin, Midland/Odessa and El Paso. Its lines extend into the grain producing regions of Kansas and Nebraska and as far west as Pueblo, Colorado.

SPT

SPT operates approximately 11,000 miles of railroad in the Western United States. This consists of approximately 8,700 miles of mainline and approximately 2,300 miles of branch line in eight states. The mainlines run from Portland, to Oakland, to Los Angeles, and thence to San Antonio, Houston and New Orleans, including physical interchanges at five principal gateways to Mexico. SPT lines extend from San Antonio and Houston to Fort Worth, with operations over trackage rights from Fort Worth to Pueblo, Colorado, and Kansas City. The Fort Worth-Pueblo line connects with SSW at Stratford and Dalhart, Texas, and to DRGW at Pueblo. The Fort Worth-Kansas City line connects with SSW at Kansas City and Hutchinson, Kansas. SPT's Central Corridor mainline runs from Northern California to Ogden, Utah, where it connects with DRGW. SPT's principal facilities are located at Eugene, Oregon, Roseville, Oakland, Los Angeles, Long Beach and West Colton, California, Tucson, Arizona, and El Paso, San Antonio and Houston, Texas.

SSW

SSW operates approximately 2,200 miles of railroad in the Central United States. This consists of approximately 1,700 miles of mainline and approximately 500 miles of branch line in nine states. SSW's mainline runs from Santa Rosa, New Mexico, to Kansas City and St. Louis, Missouri. Operations between Topeka and St. Louis are over trackage rights on UP. SSW mainlines extend from St. Louis south to Shreveport, Louisiana, and Corsicana, Texas. SSW's lines connect with SPT in Corsicana, Dalhart and Stratford, Texas, Hutchinson and Kansas City, Kansas, Shreveport, Louisiana, and Santa Rosa, New Mexico, with DRGW at Herington, Kansas, and with SPCSL at Kansas City, Missouri and East St. Louis, Illinois. At East St. Louis, Illinois, Memphis, Tennessee, and Kansas City, Kansas, SSW connects with major Eastern rail carriers. SSW's principal facilities are located in Kansas City, Kansas, and Pine Bluff, Arkansas.

SPCSL

SPCSL operates approximately 1,200 miles of mainline railroad in the states of Illinois, Iowa and Missouri, between St. Louis, Chicago and Kansas City, Kansas. This mileage includes trackage rights between Kansas City and Chicago on BN/Santa Fe. SPCSL is the link to the Chicago gateway for the SP system.

DRGW

DRGW operates approximately 2,300 miles of railroad in the states of Colorado, Utah and Kansas. This consists of approximately 1,900 miles of mainline and approximately 400 miles of branch line. The mainline runs from Ogden, Utah, in the west, where it connects with SPT, through Denver, Colorado, to Herington, Kansas, where it connects with SSW. DRGW has rights to operate from Herington to Kansas City over SSW and UP. Operations between Pueblo and Herington are over trackage rights on UP. DRGW also connects with SPT at Pueblo, Colorado. DRGW's principal facilities are located at Salt Lake City, Utah, and Denver, Pueblo and Grand Junction, Colorado.

SECTION 1180.6(a)(7)(vii)

GOVERNMENTAL ASSISTANCE

No governmental financial assistance is contemplated in the transaction proposed herein.

SECTION 1180.6(a)(8)

ENVIRONMENTAL DATA - EXHIBIT 4

Applicants' Environmental Report, Exhibit 4, appears in Volume 6 of the application (UP/SP-27). The Environmental Report explains that systemwide the merger and related actions such as abandonments will result in significant fuel savings as a result of truck-to-rail diversions and more efficient train routings. The merger will also result in a major reduction of pollutant emissions. Adverse environmental effects will be minimal, and can be further attenuated by mitigation measures.

SECTION 1180.6(b)(1)

FORM 10-Ks - EXHIBIT 6

Pursuant to Decision No. 3, served September 5, 1995, Forms 10-K for UPC, MPRR, SPR and SPT for the year ended December 31, 1994 filed with the Securities and Exchange Commission ("SEC") under 17 C.F.R. § 249.310 are submitted in Exhibit 6 in Volume 7 of the application (UP/SP-28).

SECTION 1180.6(b)(2)

FORM S-14 - EXHIBIT 7

In Decision No. 3, served September 5, 1995, the Commission waived the requirement that each Applicant carrier file its most recent Form S-14. The SEC Schedule 14D-9 that SPR filed in connection with the tender offer described at Section 1180.6(a)(1)(i), "Summary of Transaction," above, is submitted in Exhibit 7 in Volume 7 of the Application (UP/SP-28). Applicants will file UPC's Form S-4 and proxy material relating to shareholder approval of the Merger Agreement as soon as they become available.

SECTION 1180.6(b)(3)

CHANGE IN CONTROL - EXHIBIT 8

There have been no changes in ownership or control of UPRR, MPRR, SPT, SSW, SPCSL or DRGW since their most recent Forms R-1, for 1994.

Current directors of UPRR and MPRR are:

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Name	Location	Company
R. P. Bauman	London, England	UPRR, MPRR
R. B. Cheney	Washington, DC	UPRR, MPRR
E. V. Conway	New York, NY	UPRR, MPRR
R. K. Davidson	Omaha, NE	UPRR, MPRR
S. F. Eccles	Salt Lake City, UT	UPRR, MPRR
E. T. Gerry, Jr.	York, NY	UPRR, MPRR
W. H. Gray, III	Fairfax, VA	UPRR, MPRR
J. R. Hope	Washington, DC	UPRR, MPRR
L. M. Jones	Wichita, KS	UPRR, MPRR
Drew Lewis	PA	UPRR, MPRR
R. J. Mahoney	St. Louis, MO	UPRR, MPRR
C. B. Malone	VA	UPRR, MPRR
L. W. Matthews, III	Bethlehem, PA	UPRR, MPRR
J. L. Messman	Fort Worth, TX	UPRR, MPRR
J. R. Meyer	Cambridge, MA	UPRR, MPRR
T. A. Reynolds, Jr.	Chicago, IL	UPRR, MPRR
J. D. Robinson, III	New York, NY	UPRR, MPRR
R. W. Roth	Pebble Beach, CA	UPRR, MPRR
R. D. Simmons	Washington, DC	UPRR, MPRR

Current directors of SPT, DRGW, SSW and SPCSL are:

Name	Location
J. R. Davis	San Francisco, CA
T. J. Matthews	San Francisco, CA
D. C. Orris	San Francisco, CA
D. L. Polson	Denver, CO
R. F. Starzel	San Francisco, CA
L. C. Yarberry	San Francisco, CA

In Decision No. 3, served September 5, 1995, the Commission granted Applicants' request that, as compliance with Section 1180.6(b)(3)'s requirements as to officers, they could provide lists of only the top six officers of UP, SP and their majority-owned subsidiaries. Such information as of November 30, 1995 appears below.

TOP SIX OFFICERS OF UP

Name	Title	Location
R. K. Davidson	Chairman of the Board	Omaha, NE
R. J. Burns	President & Chief Executive Officer	Omaha, NE
A. L. Shoener	Executive Vice President-Operation	Omaha, NE
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE
J. J. Koraleski	Executive Vice President-Finance & Information Technologies	Omaha, NE
T. L. Watts	Senior Vice President-Labor Relations	Omaha, NE

TOP SIX OFFICERS OF CONTROLLED SUBSIDIARIES OF UP

American Refrigerator Transit Company

Name	Title	Location
R. J. Burns	Chairman of the Board	Omaha, NE
A. L. Shoener	President	Omaha, NE
J. A. Shattuck	Executive Vice President	Omaha, NE
R. D. Naro	Vice President	Omaha, NE
R. M. Chapman	Vice President & General Manager	Omaha, NE
R. J. Putz	Controller	Omaha, NE

Automated Monitoring & Control International, Inc.

Name	Title	Location
J. J. Koraleski	Chairman of the Board & Chief Executive Officer	Omaha, NE
C. W. Pendley	President & Chief Operating Officer	Omaha, NE
J. R. Round	Controller & Treasurer	Omaha, NE
W. G. Barr	Secretary	Omaha, NE
J. M. Heida	Assistant Secretary	Omaha, NE

Chicago Heights Terminal Transfer Railroad Company

Name	Title	Location
A. L. Shoener	President	Omaha, NE
R. J. Brocker	Vice President-Operation	Omaha, NE
R. D. Naro	Vice President	Omaha, NE

G. M. Stuart	Vice President & Treasurer	Bethlehem, PA
R. J. Putz	Controller	Omaha, NE
K. D. Petersen	Secretary	Omaha, NE

Chicago and Western Indiana Railroad Company

Name	Title	Location
A. L. Shoener	President	Omaha, NE
R. J. Putz	Vice President-Finance	Omaha, NE
J. V. Dolan	Vice President-Law	Omaha, NE
K. D. Petersen	Secretary	Omaha, NE
C. W. Saylors	Assistant Secretary	Omaha, NE

Delta Finance Company Ltd.

Name	Title	Location
R. D. Uhrich	Senior Vice President	Omaha, NE
C. M. von Bernuth	Vice President & Assistant Treasurer	Bethlehem, PA
C. M. Smith	Vice President-Law	Omaha, NE
J. B. Gremillion, Jr.	Vice President-Taxes	Bethlehem, PA
D. C. Meyer	Director-Real Estate Operation	McLean, VA

Doniphan, Kensett & Searcy Railway

Name	Title	Location
A. L. Shoener	President	Omaha, NE
J. A. Shattuck	Vice President-Marketing & Sales	Omaha, NE
W. D. Meriwether	Vice President	N. Little Rock, AR
J. B. Gremillion	Vice President-Taxes	Bethlehem, PA
G. M. Stuart	Treasurer	Bethlehem, PA
R. J. Putz	Controller	Omaha, NE

Donland Development Company

Name	Title	Location
R. J. Burns	President	Omaha, NE
A. L. Shoener	Executive Vice President	Omaha, NE
J. J. Koraleski	Vice President	Omaha, NE
J. V. Dolan	Vice President	Omaha, NE

J. A. Shattuck	Vice President	Omaha, NE
J. B. Gremillion, Jr.	Vice President-Taxes	Bethlehem, PA

Environmental Railroad Properties, Incorporated

Name	Title	Location
R. J. Burns	Chairman, Chief Executive Officer & President	Omaha, NE
A. L. Shoener	Executive Vice President-Operation	Omaha, NE
J. E. Martin	Senior Vice President-Operation	Chicago, IL
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE
A. W. Peters	Senior Vice President-Marketing & Sales	Chicago, IL
M. F. Kelly	Vice President-Marketing	Omaha, NE

Midwestern Railroad Properties, Incorporated

Name	Title	Location
R. J. Burns	Chairman, Chief Executive Officer & President	Omaha, NE
A. L. Shoener	Executive Vice President-Operation	Omaha, NE
J. E. Martin	Senior Vice President-Operation	Chicago, IL
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE
A. W. Peters	Senior Vice President-Marketing & Sales	Chicago, IL
M. F. Kelly	Vice President-Marketing	Omaha, NE

Missouri Improvement Company

Name	Title	Location
R. D. Uhrich	Senior Vice President	Omaha, NE
J. E. Dowling	Vice President & Assistant Treasurer	Bethlehem, PA
C. W. von Bernuth	Vice President & Assistant Treasurer	Bethlehem, PA
C. M. Smith	Vice President-Law	Omaha, NE
J. B. Gremillion, Jr.	Vice President-Taxes	Bethlehem, PA
B. J. Hoider	Assistant Secretary	Omaha, NE

Missouri Pacific Intermodal Transport, Inc.

Name	Title	Location
R. K. Davidson	Chairman of the Board	Omaha, NE
A. L. Shoener	President	Omaha, NE
R. M. Chapman	Vice President	Omaha, NE

M. F. Kelly	Vice President	Omaha, NE
G. M. Stuart	Treasurer	Bethlehem, PA
R. J. Putz	Controller	Omaha, NE

Motor Vehicle Logistics Corporation

Name	Title	Location
D. J. Glass	President	Omaha, NE
R. M. MacDonald	Vice President	Omaha, NE
S. P. Mele	Treasurer	Omaha, NE
C. W. Saylors	Secretary	Omaha, NE

MP Equipment Corp.

Name	Title	Location
A. L. Shoener	President	Omaha, NE
W. F. Somervell	Vice President	Omaha, NE
R. J. Putz	Controller	Omaha, NE
P. D. Berg	Treasurer	Omaha, NE
K. D. Petersen	Secretary	Omaha, NE
C. W. Saylors	Assistant Secretary	Omaha, NE

MP Redevelopment Corp.

Name	Title	Location
J. A. Shattuck	President	Omaha, NE
A. L. Shoener	Vice President	Omaha, NE
G. M. Stuart	Treasurer	Bethlehem, PA
K. D. Petersen	Secretary	Omaha, NE
P. D. Berg	Assistant Treasurer	Omaha, NE
C. W. Saylors	Assistant Secretary	Omaha, NE

North Western Leasing Company

Name	Title	Location
R. J. Burns	Chairman, Chief Executive Officer & President	Omaha, NE
A. L. Shoener	Executive Vice President-Operation	Omaha, NE
J. E. Martin	Senior Vice President-Operation	Chicago, IL
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE

A. W. Peters	Senior Vice President-Marketing & Sales	Chicago, IL
M. F. Kelly	Vice President-Marketing	Omaha, NE

Park Spring, Inc.

Name	Title	Location
R. D. Uhrich	Senior Vice President	Omaha, NE
J. E. Dowling	Vice President & Assistant Treasurer	Bethlehem, PA
C. W. von Bernuth	Vice President & Assistant Treasurer	Bethlehem, PA
C. M. Smith	Vice President-Law	Omaha, NE
J. B. Gremillion, Jr.	Vice President-Taxes	Bethlehem, PA
T. E. Whitaker	Assistant Secretary	Bethlehem, PA

The St. Joseph & Grand Island Railway Company

Name	Title	Location
R. J. Burns	Chairman of the Board, Chairman of Executive Committee & Chief Executive Officer	Omaha, NE
A. L. Shoener	Vice Chairman of the Board & President	Omaha, NE
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE
J. V. Dolan	Vice President-Law & Assistant Secretary	Omaha, NE
J. J. Koraleski	Executive Vice President-Finance & Information Technologies	Omaha, NE
R. D. Naro	Vice President-Operations	Omaha, NE

Signage, Inc.

Name	Title	Location
R. J. Burns	Chairman, Chief Executive Officer & President	Omaha, NE
A. L. Shoener	Executive Vice President-Operation	Omaha, NE
J. E. Martin	Senior Vice President-Operation	Chicago, IL
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE
A. W. Peters	Senior Vice President-Marketing & Sales	Chicago, IL
M. F. Kelly	Vice President-Marketing	Omaha, NE

Southern Illinois & Missouri Bridge Company

Name	Title	Location
A. L. Shoener	President	Omaha, NE
R. W. Schreiber	Vice President	Omaha, NE
C. W. Calder	Vice President	San Francisco, CA
G. M. Stuart	Treasurer	Bethlehem, PA
K. D. Petersen	Secretary	Omaha, NE
P. D. Berg	Assistant Treasurer	Omaha, NE

Standard Realty & Development Company

Name	Title	Location
R. D. Uhrich	Senior Vice President	Omaha, NE
J. E. Dowling	Vice President & Assistant Treasurer	Bethlehem, PA
C. W. von Bernuth	Vice President & Assistant Treasurer	Bethlehem, PA
C. M. Smith	Vice President-Law	Omaha, NE
J. B. Gremillion, Jr.	Vice President-Taxes	Bethlehem, PA
B. M. Holder	Assistant Secretary	Omaha, NE

Stonegate Park, Inc.

Name	Title	Location
R. D. Uhrich	Senior Vice President	Omaha, NE
J. E. Dowling	Vice President & Assistant Treasurer	Bethlehem, PA
C. W. von Bernuth	Vice President & Assistant Treasurer	Bethlehem, PA
C. M. Smith	Vice President-Law	Omaha, NE
J. B. Gremillion, Jr.	Vice President-Taxes	Bethlehem, PA
B. M. Holder	Assistant Secretary	Omaha, NE

Terminal Industrial Land Company

Name	Title	Location
K. L. DeMaet	President & Treasurer	Texas City, TX
W. O. Pollard	Secretary	Texas City, TX
L. G. Blythe, Jr.	Assistant Secretary & Auditor	Texas City, TX
G. D. Lambdin	General Attorney	Galveston, TX

Texas City Terminal Railway Company

Name	Title	Location
K. L. DeMaet	President, General Manager & Treasurer	Texas City, TX
W. O. Pollard	Secretary	Texas City, TX
W. E. Daigle	Assistant Secretary	Texas City, TX
E. Mabry	General Attorney	Galveston, TX

Transborder Rail Corporation

Name	Title	Location
J. H. Rebensdorf	President	Omaha, NE
R. S. Blackburn	Vice President	Omaha, NE
K. D. Petersen	Secretary	Omaha, NE
S. P. Mele	Treasurer	Omaha, NE
C. W. Saylors	Assistant Secretary	Omaha, NE
P. D. Berg	Assistant Treasurer	Omaha, NE

UP Acquisition Corporation

Name	Title	Location
Drew Lewis	Chairman	Bethlehem, PA
L. W. Matthews, III	President	Bethlehem, PA
C. W. von Bernuth	Vice President & Assistant Secretary	Bethlehem, PA
J. E. Dowling	Vice President	Bethlehem, PA
J. L. Swantak	Secretary	Bethlehem, PA
G. M. Stuart	Treasurer	Bethlehem, PA

Union Pacific Baseball Enterprises, Inc.

Name	Title	Location
R. J. Burns	Chairman & Chief Executive Officer	Omaha, NE
J. J. Adams	President	Omaha, NE
J. M. Hildreth	Vice President-Public Relations	Omaha, NE
P. J. O'Malley	Vice President-Finance	Omaha, NE
W. R. Ulrich	Vice President-Administration & Facilities	Omaha, NE
L. E. Wzorek	Vice President-Operations	Omaha, NE

Union Pacific de Mexico

Name	Title	Location
R. S. Blackburn	President	Omaha, NE
J. M. Correa	Vice President	Mexico City
W. G. Barr	Secretary	Omaha, NE
P. D. Berg	Treasurer	Omaha, NE
J. Gomez S.	Assistant Secretary	Mexico City

Union Pacific Distribution Services Corporation

Name	Title	Location
M. F. Kelly	President	Omaha, NE
G. T. DiMasi	General Manager	Omaha, NE
D. L. Mathy	Treasurer	Omaha, NE
P. G. Magiera	Secretary	Omaha, NE
T. G. Palmer	Director-Intermodal	Omaha, NE
T. J. Naso	Director-Mexico	Omaha, NE

Union Pacific ExpressAir, Inc.

Name	Title	Location
R. J. Burns	Chairman of the Board	Omaha, NE
A. L. Shoener	President	Omaha, NE
J. A. Shattuck	Executive Vice President	Omaha, NE
R. D. Naro	Vice President	Omaha, NE
M. F. Kelly	Assistant Vice President	Omaha, NE
R. J. Putz	Controller	Omaha, NE

Union Pacific Financial Corporation

Name	Title	Location
R. J. Putz	President	Omaha, NE
L. J. Randolph	Vice President	St. Louis, MO
D. M. Cudihee	Secretary	St. Louis, MO
P. D. Berg	Treasurer	Omaha, NE
K. D. Peterson	Assistant Secretary	Omaha, NE

Union Pacific Freight Services Company

Name	Title	Location
R. J. Burns	Chairman	Omaha, NE
A. L. Shoener	President	Omaha, NE
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE
J. J. Koraleski	Executive Vice President-Finance & Information Technologies	Omaha, NE
R. D. Naro	Vice President-Operations	Omaha, NE
J. V. Dolan	Vice President-Law	Omaha, NE

Union Pacific Fruit Express Company

Name	Title	Location
A. L. Shoener	President	Omaha, NE
J. J. Koraleski	Vice President	Omaha, NE
J. A. Shattuck	Vice President	Omaha, NE
R. D. Naro	Vice President-Operations	Omaha, NE
J. V. Dolan	Vice President-Law	Omaha, NE
R. M. Chapman	General Manager	Omaha, NE

Union Pacific Motor Freight Company

Name	Title	Location
R. J. Burns	Chairman of the Board	Omaha, NE
A. L. Shoener	President	Omaha, NE
R. M. Chapman	Vice President & General Manager	Omaha, NE
R. D. Naro	Vice President	Omaha, NE
J. V. Dolan	Vice President	Omaha, NE
R. J. Putz	Controller	Omaha, NE

Union Pacific Venture Leasing, Incorporated

Name	Title	Location
C. R. Eisele	Chairman of the Board	Omaha, NE
D. C. Lewis	Chief Executive Officer & President	Omaha, NE
J. M. McCullough	Vice President & General Manager	Omaha, NE

J. A. Phillips	Vice President-Finance	Omaha, NE
C. W. Saylors	Secretary	Omaha, NE
P. D. Berg	Treasurer	Omaha, NE

Wisconsin Town Lot Company

Name	Title	Location
R. J. Burns	Chairman, Chief Executive Officer & President	Omaha, NE
A. L. Shoener	Executive Vice President-Operation	Omaha, NE
J. E. Martin	Senior Vice President-Operation	Chicago, IL
J. A. Shattuck	Executive Vice President-Marketing & Sales	Omaha, NE
A. W. Peters	Senior Vice President-Marketing & Sales	Chicago, IL
M. F. Kelly	Vice President-Marketing	Omaha, NE

TOP SIX OFFICERS OF SP

Name	Title	Location
J. R. Davis	Chairman & Chief Executive Officer	San Francisco, CA
R. F. Starzel	Vice Chairman	San Francisco, CA
D. C. Orris	President & Chief Operating Officer	San Francisco, CA
C. Y. Harvey	Executive Vice President-Finance & Law & General Counsel	San Francisco, CA
L. R. Parsons	Executive Vice President-Operations	Denver, CO
T. J. Matthews	Senior Vice President-Administration	San Francisco, CA

TOP SIX OFFICERS OF CONTROLLED SUBSIDIARIES OF SPT

Pacific Motor Transport Company

Name	Title	Location
R. F. Starzel	Chairman	San Francisco, CA
G. Angeli	President	DeSoto, TX
R. L. Cross	President-ABL-TRANS	Lafayette, CA
J. P. Atturio	Vice President & Controller	Lafayette, CA
C. D. Tyler	Treasurer	San Francisco, CA
B. J. Medina	Secretary	San Francisco, CA

Southern Pacific Asset Management Company

Name	Title	Location
R. F. Starzel	Chairman	San Francisco, CA
S. D. Steel	President	Denver, CO
M. W. Casey	Senior Vice President	San Francisco, CA
B. C. Kane	Controller	San Francisco, CA
L. K. Ducken	Treasurer	San Francisco, CA
T. F. O'Donnell	Secretary	San Francisco, CA

Southern Pacific Equipment Company

Name	Title	Location
L. K. Ducken	President & Treasurer	San Francisco, CA
T. J. Matthews	Vice President	San Francisco, CA
C. Y. Harvey	General Counsel	San Francisco, CA
B. C. Kane	General Auditor	San Francisco, CA
T. F. O'Donnell	Secretary	San Francisco, CA
B. J. Medina	Assistant Secretary	San Francisco, CA

Southern Pacific International, Inc.

Name	Title	Location
R. G. Thruston	Chairman & President	Houston, TX
A. J. Strok	Vice President & General Manager	Southfield, MI
B. C. Kane	Controller	San Francisco, CA
J. B. Doherty	Treasurer	San Francisco, CA
T. F. O'Donnell	Secretary	San Francisco, CA

Southern Pacific Marine Transport, Inc.

Name	Title	Location
G. Angeli	Chairman & President	DeSoto, TX
J. P. Atturio	Vice President & Controller	San Francisco, CA
C. Y. Harvey	General Counsel	San Francisco, CA
J. B. Doherty	Treasurer	San Francisco, CA
T. F. O'Donnell	Secretary	San Francisco, CA
B. J. Medina	Assistant Secretary	San Francisco, CA

Southern Pacific México, S.A. de C.V.

Name	Title	Location
R. G. Thruston	Chairman & President	Houston, TX
J. M. Carreón	General Director	México City, Mexico
L. C. Yarberry	Finance Director	San Francisco, CA
G. P. Lindquist	Internal Auditing Director	San Francisco, CA
W. E. Saul	Tax Director	San Francisco, CA
F. Estavillo C.	Secretary	México City, Mexico

Southern Pacific Motor Trucking Company

Name	Title	Location
G. Angeli	Chairman & President	DeSoto, TX
C. Y. Harvey	General Counsel	San Francisco, CA
B. C. Kane	Controller	San Francisco, CA
J. B. Doherty	Treasurer	San Francisco, CA
T. F. O'Donnell	Secretary	San Francisco, CA

Southern Pacific Warehouse Company

Name	Title	Location
S. D. Steel	President	Denver, CO
M. W. Casey	Vice President	San Francisco, CA
B. C. Kane	Controller	San Francisco, CA
L. K. Ducken	Treasurer	San Francisco, CA
T. F. O'Donnell	Secretary	San Francisco, CA
B. J. Medina	Assistant Secretary	San Francisco, CA

TOP SIX OFFICERS OF CONTROLLED SUBSIDIARY OF SSW

Arkansas & Memphis Railway Bridge and Terminal Company

Name	Title	Location
R. D. Naro	President	Omaha, NE
J. L. Verhaal	Vice President & General Manager	Denver, CO
W. E. Fowler	Vice President	Denver, CO

R. J. Putz	Controller	Omaha, NE
L. K. Ducken	Treasurer	San Francisco, CA
T. F. O'Donnell	Secretary	San Francisco, CA

SECTION 1180.6(b)(4)

ANNUAL REPORTS - EXHIBIT 9

In accordance with Decision No. 3, served September 5, 1995, Applicants are submitting, in Exhibit 9 in Volume 7 of the application (UP/SP-28), copies of the two most recent annual reports to stockholders (1993 and 1994) of UPC and SPR.

SECTION 1180.6(b)(5)

RELEVANT ISSUES - EXHIBIT 10

The relevant issues, in Applicants' opinion, are:

1. The effect of the proposed transaction on competition for the intercity transportation of freight.

2. The effect of the proposed transaction on the adequacy of rail transportation service to the public.

3. The effect of the proposed transaction on shippers and the economy.

4. The effect of the proposed transaction on the efficiency with which rail services are provided and the total resources consumed in providing such services.

These issues are addressed throughout the application.

SECTION 1180.6(b)(6)

CORPORATE CHARTS - EXHIBIT 11

Pages 59 through 67 below present corporate charts setting forth the information required by Section 1180.6(b)(6), as waived in part by the Commission in

EXHIBIT 11 - CORPORATE CHART - PART 1

**UNION PACIFIC CORPORATION,
CHICAGO AND NORTH WESTERN HOLDINGS CORPORATION,
CHICAGO AND NORTH WESTERN TRANSPORTATION COMPANY,
UNION PACIFIC RAILROAD COMPANY,
MISSOURI PACIFIC CORPORATION AND
MISSOURI PACIFIC RAILROAD COMPANY**

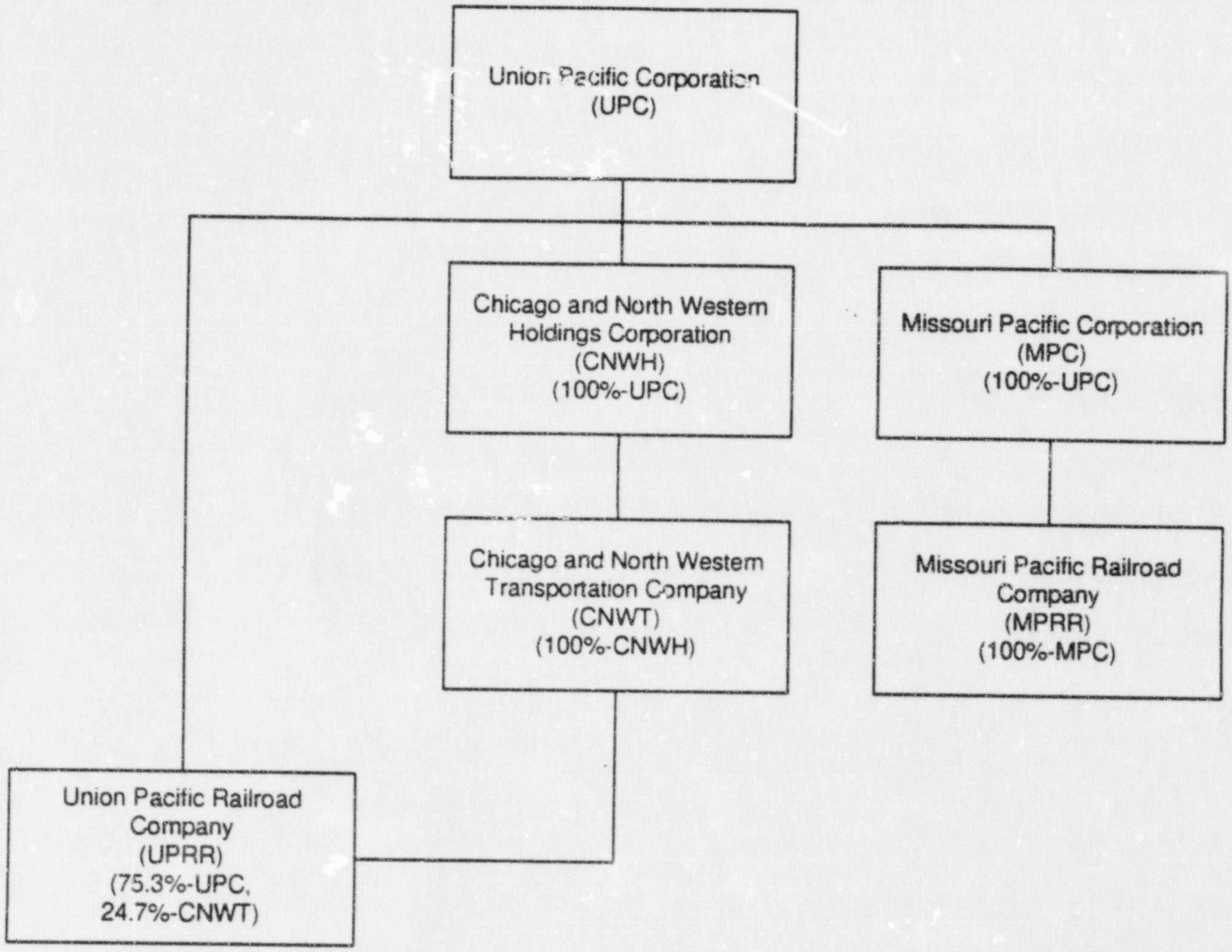

EXHIBIT 11 - CORPORATE CHART - PART 2A

UNION PACIFIC RAILROAD COMPANY AND SUBSIDIARIES AND AFFILIATES

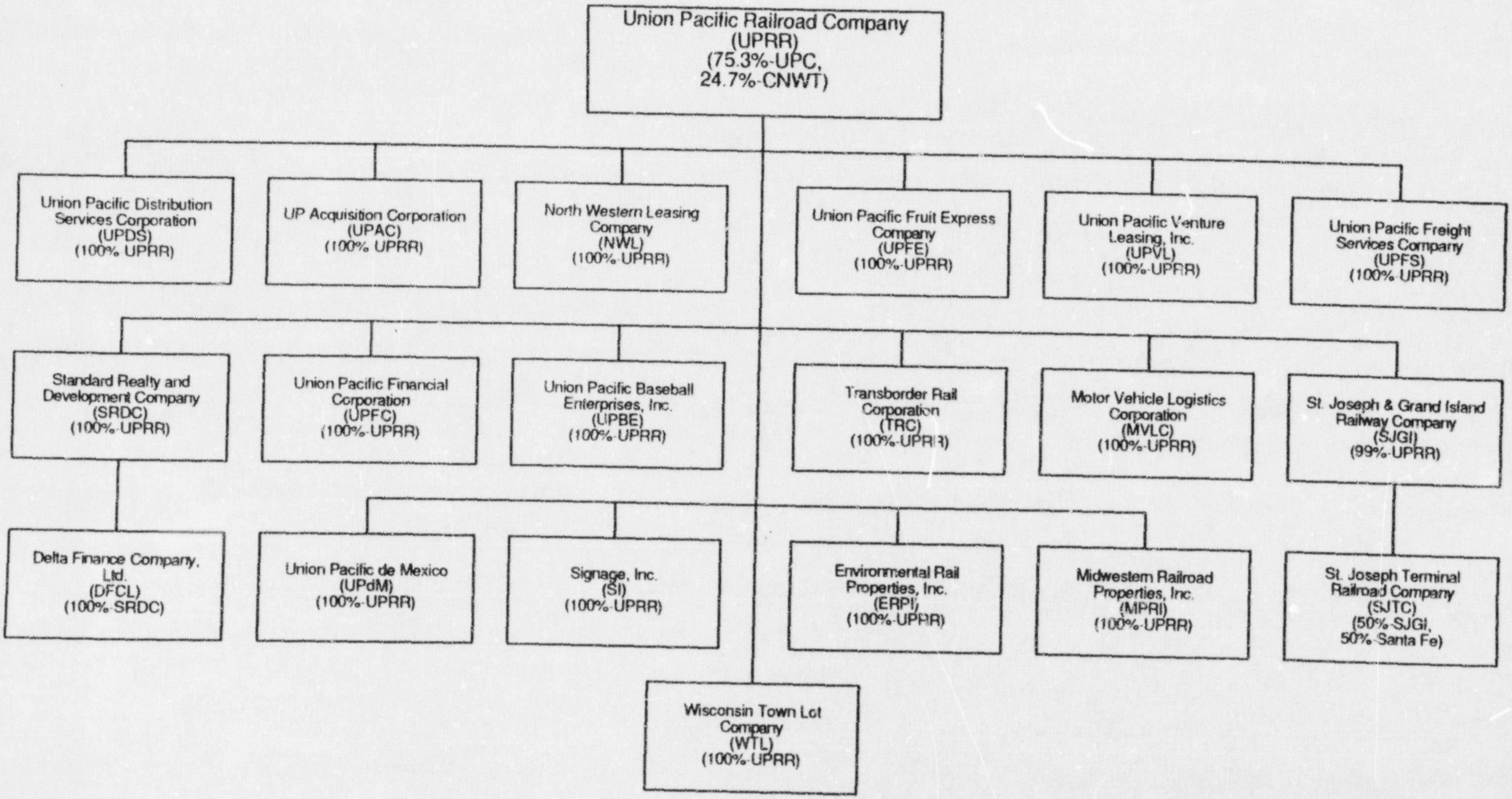

EXHIBIT 11 - CORPORATE CHART - PART 2B

UNION PACIFIC RAILROAD COMPANY
AND SUBSIDIARIES AND AFFILIATES

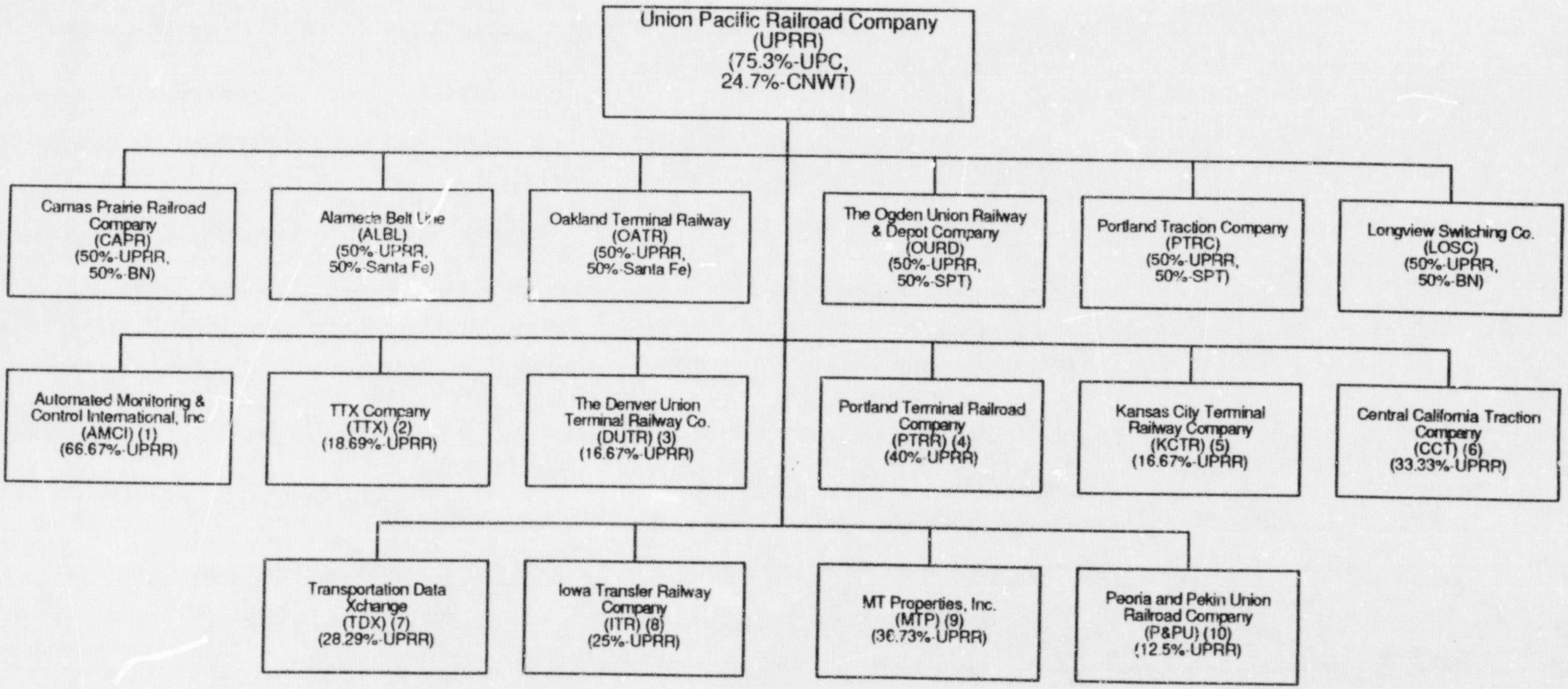

EXHIBIT 11 - CORPORATE CHART - PART 2C

UNION PACIFIC RAILROAD COMPANY
AND SUBSIDIARIES AND AFFILIATES

NOTES TC PART 2B

(1) UPRR owns 100% of issued Class A voting common, 33.33% of issued Class B voting common, and 33.33% of issued Class C non-voting common stock of AMCI, representing a 66.67% controlling interest. UPRR appoints three Class 3 directors, each with two votes, to a board of six members. Other shareholders include Alcatel Canada Telecommunications, Inc., and Tandum Computers Incorporated.

(2) UPRR owns 3,000 (18.69%) of 16,050 TTX shares issued. UPRR/MPRR have one director on the TTX Board, which represents 4,200 shares and votes. Other shareholders are IC, BN, KCS, Santa Fe, NS, CSX, Conrail, SPT, DRGW, SSW, CP, FEC, GTW, B&M and MPRR.

(3) UPRR owns 50 (16.67%) of 300 DUTR shares issued, and appoints two of twelve directors. Other shareholders are Santa Fe, BN, Chicago Pacific Corp. ("CPC") and DRGW.

(4) UPRR owns 12,000 (40%) of 30,000 PTRR shares issued, and appoints two of six directors. Other shareholders are BN and SPT.

(5) UPRR owns 3,666-2/3 (16.67%) of 22,000 KCTR shares issued, and appoints two of thirteen directors. Other shareholders are BN, SSW, CP, IC, KCS, NS, Santa Fe and KCTR itself.

(6) UPRR owns 976-2/3 (33.33%) of 2,930 CCT shares issued, and appoints two of six directors. Other shareholders are Santa Fe and SP.

(7) UPRR owns 1,263 (28.29%) of 4,464 TDX shares issued and appoints two of seven directors. Other shareholders are Santa Fe, BN, Conrail, KCS, NS, SP, CSX and FVW.

(8) UPRR owns 161 (25%) of 644 shares of ITR and appoints one of four directors. Other shareholders are NS, BN and IAIS.

(9) UPRR owns 29,868 (36.73%) of 81,328 shares of MPT and appoints one of four directors. Other shareholders are BN, Maytag Corporation and CP.

(10) UPRR owns 1,250 (12.5%) of 10,000 shares of P&PU outstanding shares and appoints one of twelve directors. Other shareholders are IC, NS and Conrail.

EXHIBIT 11 - CORPORATE CHART - PART 3A

MISSOURI PACIFIC RAILROAD COMPANY AND SUBSIDIARIES AND AFFILIATES

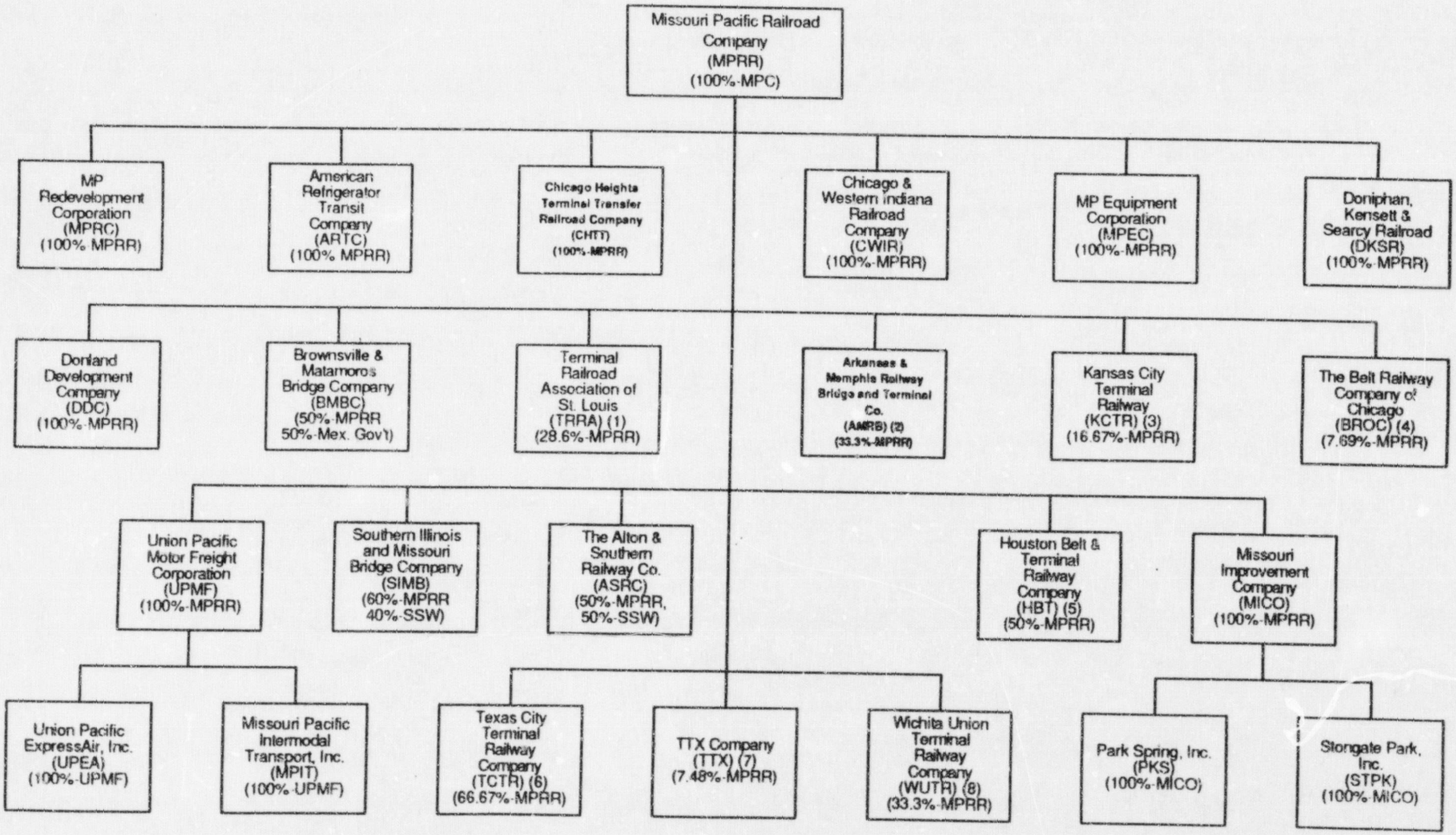

EXHIBIT 11 - CORPORATE CHART - PART 3B

MISSOURI PACIFIC RAILROAD COMPANY AND SUBSIDIARIES AND AFFILIATES

NOTES TO PART 3A

(1) MPRR owns 8,232 (28.57%) of 28,812 TRRA shares issued and appoints four of fifteen directors. Other shareholders include BN, SSW, NS, CSX, IC and TRRA itself.

(2) MPRR beneficially owns 2,900 (33.33%) of 8,700 AMRB common shares issued, 5,500 (33.33%) of 16,500 AMRB preferred shares issued, and appoints two of six directors. The other shareholder is SSW.

(3) MPRR owns 3,666-2/3 (16.67%) of 22,000 KCTR shares issued, and appoints two of thirteen directors. Other shareholders include BN, SSW, CP, UPRR, IC, KCS, NS, Santa Fe and KCTR itself.

(4) MPRR owns 2,600 (8.33%) of 31,200 BROC shares issued, and appoints one of twelve directors. Other shareholders include Conrail, GTW, CP, NS, Santa Fe, BN, IC and CSX.

(5) MPRR owns 125 (50%) of 250 HBT shares issued, and appoints four of nine directors. Other shareholders include BN and Santa Fe.

(6) MPRR owns 3,333-1/3 (66.67%) of 5,000 TCTR shares issued, and appoints two of five directors. Other shareholders include Santa Fe and TCTR itself.

(7) MPRR owns 1,200 (7.48%) of 16,050 TTX shares issued. UPRR/MPRR has one director on the TTX Board, who represents 4,200 shares and votes. Other shareholders include IC, RFP, BN, KCS, Santa Fe, NS, CSX, Conrail, SPT, DRGW, SSW, CP, FEC, GTW, B&M and UPRR.

(8) MPRR owns 333-1/3 (33.33%) of 1,000 WUTR shares issued, and appoints two of six directors. 3N and Santa Fe are the other shareholders, each owning 333-1/3 shares and appoint two directors.

EXHIBIT 11 - CORPORATE CHART - PART 4

SOUTHERN PACIFIC RAIL CORPORATION
SOUTHERN PACIFIC TRANSPORTATION COMPANY

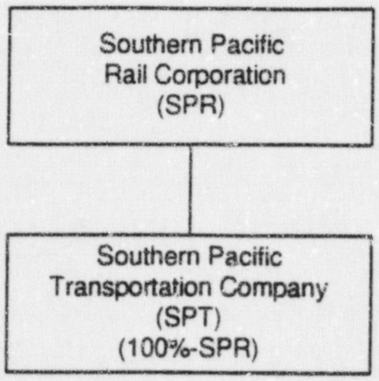

EXHIBIT 11 - CORPORATE CHART - PART 5A

SOUTHERN PACIFIC TRANSPORTATION COMPANY AND SUBSIDIARIES AND AFFILIATES

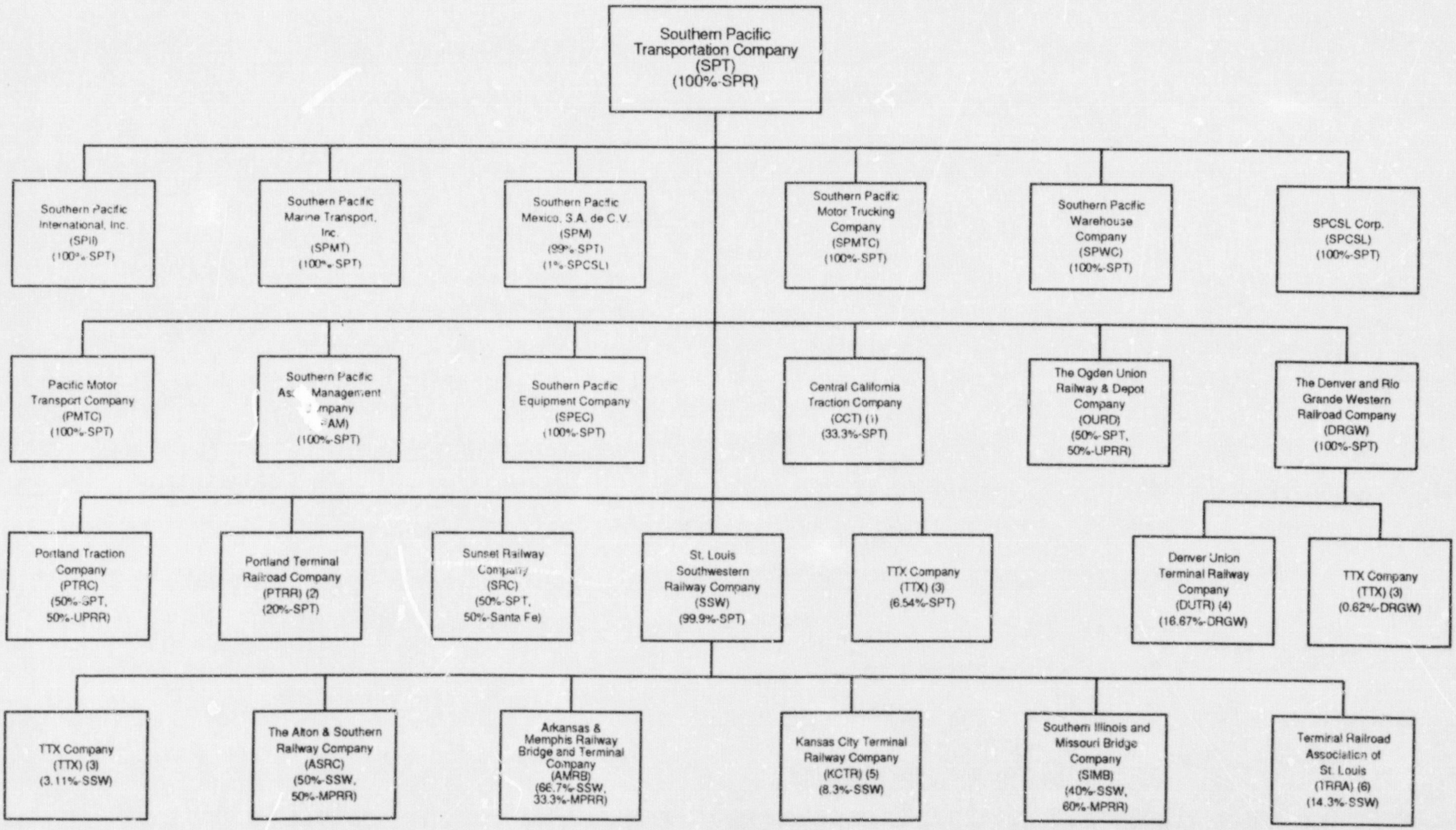

EXHIBIT 11 - CORPORATE CHART - PART 5B

SOUTHERN PACIFIC TRANSPORTATION COMPANY
AND SUBSIDIARIES AND AFFILIATES

NOTES TO PART 5A

(1) SPT owns 976-2/3 (33.3% of 2,930 CCT shares issued, and appoints two of six directors. Other shareholders are Santa Fe and UPRR.

(2) SPT owns 6,000 (20%) of 30,000 PTRR shares issued, and appoints two of six directors. Other shareholders are UPRR and BN.

(3) SPT, DRGW and SSW own 1,050, 100 and 500 shares respectively, for a total of 1,650 (10.28%) of 16,050 TTX shares issued. SPT/DRGW/SSW have one director on the TTX Board, who represents 1,650 shares and votes. Other shareholders are IC, BN, KCS, Santa Fe, NS, CSX, Conrail, UPRR, MPRR, CP, FEC, GTW and B&M.

(4) DRGW owns 50 (16.67%) of 300 DUTR shares issued, and appoints two of twelve directors. Other shareholders are BN, Santa Fe, CPC and UPRR.

(5) SSW owns 1833-1/3 (8.33%) of 22,000 KCTR shares issued, and appoints one of thirteen directors. Other shareholders are BN, CP, IC, KCS, NS, Santa Fe, UP and KCTR itself.

(6) SSW owns 4116 (14.3%) of 28,812 TRRA shares issued and appoints two of fifteen directors. Other shareholders include BN, NS, CSX, IC, MPRR and TRRA itself.

Decision No. 3, served September 5, 1995. The charts show the Applicant carriers, the Applicant parents thereof, intermediate subsidiaries, and all subsidiaries of the Applicant carriers. See also Section 1180.6(b)(6)(i), "Statement of Common Officers/Directors," below; Section 1180.6(b)(6)(ii), "Carrier Status List," below, Section 1180.6(b)(7), "Information on Noncarrier Applicants," below, and Section 1180.6(b)(8), "Statement of Direct/Indirect Intercorporate Financial Relationships," below.

SECTION 1180.6(b)(6)(i)

STATEMENT OF COMMON OFFICERS AND DIRECTORS

In Decision No. 3, served September 5, 1995, the Commission granted Applicants' request for a waiver of the requirement that they submit a corporate chart indicating common officers and directors among any of the companies shown on the chart, and permitted them to list only officers and directors who are (a) common to both UP (including majority-owned subsidiaries) and SP (including majority-owned subsidiaries), or (b) common to UP, SP or any of their majority-owned subsidiaries and any carrier outside the UP or SP corporate families. There are no officers or directors of UP or SP meeting either of these criteria.

SECTION 1180.6(b)(6)(ii)

CARRIER STATUS LIST

The following list indicates which companies of those shown in Section 1180.6(b)(6), "Corporate Charts," above, are carriers. For those companies that are carriers, it also indicates the modes and any applicable Commission dockets authorizing their operations.

Company	Whether a Carrier	Mode	Docket Conferring Authority
		Corporate Chart, Part 1	
1. UPC	No	Not Applicable	Not Applicable[11]
2. CNWH	No	Not Applicable	Not Applicable[11]
3. CNWT	No	Not Applicable	Not Applicable[11]
4. UPRR	Yes	Rail	Not Applicable
5. MPC	Yes	Not Applicable	Not Applicable
6. MPRR	Yes	Rail	Not Applicable
		Corporate Chart, Part 2A	
1. UPRR	Yes	Rail	Not Applicable
2. UPDS	No	Not Applicable	Not Applicable
3. UPAC	No	Not Applicable	Not Applicable
4. NWL	No	Not Applicable	Not Applicable
5. UPFE	No	Not Applicable	Not Applicable
6. UPVL	No	Not Applicable	Not Applicable
7. UPFS	No	Not Applicable	Not Applicable
8. SRDC	No	Not Applicable	Not Applicable
9. UPFC	No	Not Applicable	Not Applicable
10. UPBE	No	Not Applicable	Not Applicable
11. TRC	No	Not Applicable	Not Applicable
12. MVLC	No	Not Applicable	Not Applicable
13. SJGI	Yes	Rail	Not Applicable
14. DFCL	No	Not Applicable	Not Applicable
15. UPdM	No	Not Applicable	Not Applicable
16. SI	No	Not Applicable	Not Applicable
17. ERPI	No	Not Applicable	Not Applicable

[11] Subject to railroad holding company reporting requirements set forth at Union Pacific Corp., Union Pacific R.R. & Pacific Rail System, Inc. -- Control -- Missouri Pacific Corp. & Missouri Pacific R.R., 366 I.C.C. 459, 640 (1982), aff'd in part & remanded in part sub nom. Southern Pacific Transportation Co. v. ICC, 736 F.2d 708 (D.C. Cir. 1984), cert. denied, 469 U.S. 1208 (1985).

Company	Whether a Carrier	Mode	Docket Conferring Authority
18. MPRI	Yes	Rail	Finance Docket Nos. 29518, et al., Midwestern Rail Properties -- Purchase -- Rock Island, 366 I.C.C. 915 (1983)
19. SJTC	Yes	Rail	Not Applicable
20. WTL	No	Not Applicable	Not Applicable

Corporate Chart, Part 2B

1. UPRR	Yes	Rail	Not Applicable
2. CAPR	Yes	Rail	Not Applicable
3. ALBL	Yes	Rail	Not Applicable
4. OATR	Yes	Rail	Not Applicable
5. OURD	Yes	Rail	Not Applicable
6. PTRC	Yes	Rail	Not Applicable
7. LOSC	Yes	Rail	Not Applicable
8. AMCI	No	Not Applicable	Not Applicable
9. TTX	No	Not Applicable	Pooling Approved in Finance Docket Nos. 27589 and 27590, American Rail Box Car Co. Pooling, 347 I.C.C. 862, 707-08 (1974)
10. DUTR	Yes	Rail	Not Applicable
11. PTRR	Yes	Rail	Not Applicable
12. KCTR	Yes	Rail	Not Applicable
13. CCT	Yes	Rail	Not Applicable
14. TDX	No	Not Applicable	Not Applicable
15. ITR	Yes	Rail	Not Applicable
16. MTP	No	Not Applicable	Not Applicable
17. P&PU	Yes	Rail	Not Applicable

Corporate Chart, Part 3A

1. MPRR	Yes	Rail	Not Applicable
2. MPRC	No	Not Applicable	Not Applicable
3. ARTC	No	Not Applicable	Not Applicable
4. CHTT	Yes	Rail	Not Applicable

Company	Whether a Carrier	Mode	Docket Conferring Authority
5. CWIR	Yes	Rail	Not Applicable
6. MPEC	No	Not Applicable	Not Applicable
7. DKSR	Yes	Rail	Not Applicable
8. DDC	No	Not Applicable	Not Applicable
9. BMBC	Yes	Rail	Not Applicable
10. TRRA	Yes	Rail	Not Applicable
11. AMRB	Yes	Rail	Not Applicable
12. KCTR	Yes	Rail	Not Applicable
13. BROC	Yes	Rail	Not Applicable
14. UPMF	Yes	Motor	Not Applicable
15. SIMB	Yes	Motor	Not Applicable
16. ASRC	Yes	Rail	Not Applicable
17. HBT	Yes	Rail	Not Applicable
18. MICO	No	Not Applicable	Not Applicable
19. UPEA	Yes	Air Freight Forwarder	Permit No. FF-431
20. MPIT	Yes	Motor (Drayage)	Limited Terminal Drayage; No ICC Authority Needed
21. TCTR	Yes	Rail	Not Applicable
22. TTX	No	Not Applicable	Pooling Approved in Finance Docket Nos. 27589 and 27590, American Rail Box Car Co. Pooling, 347 I.C.C. 862, 907-08 (1974)
23. WUTR	Yes	Rail	Not Applicable
24. PKS	No	Not Applicable	Not Applicable
25. STPK	No	Not Applicable	Not Applicable

Corporate Chart, Part 4

Company	Whether a Carrier	Mode	Docket Conferring Authority
1. SPR	No	Not Applicable	Not Applicable
2. SPT	Yes	Rail	Finance Docket No. 25723, Southern Pacific Transportation -- Merger -- Southern Pacific Co.

Company	Whether a Carrier	Mode	Docket Conferring Authority
		Corporate Chart, Part 5A	
1. SPT	Yes	Rail	F.D. 25723
2. SPII	Yes	Broker and Freight Forwarder	MC 196555
3. SPMT	No	Not Applicable	Not Applicable
4. SPM	No	Not Applicable	Not Applicable
5. SPMTC	Yes	Motor	MC 78786
6. SPWC	No	Not Applicable	Not Applicable
7. SPCSL	Yes	Rail	Finance Docket No. 31522, Rio Grande Industries, Inc. -- Purchase & Trackage Rights -- Chicago, Missouri & Western Ry. Line Between St. Louis, MO, & Chicago, IL
8. PMTC	Yes	Motor	MC 54696
9. SPAM	No	Not Applicable	Not Applicable
10. SPEC	No	Not Applicable	Not Applicable
11. CCT	Yes	Rail	Not Applicable
12. OURD	Yes	Rail	Not Applicable
13. DRGW	Yes	Rail	Not Applicable
14. PTRC	Yes	Rail	Not Applicable
15. PTRR	Yes	Rail	Not Applicable
16. SRC	Yes	Rail	Not Applicable
17. SSW	Yes	Rail	Not Applicable
18. TTX	No	Not Applicable	Pooling Approved in Finance Docket Nos. 27589 and 27590, American Rail Box Car Pooling, 347 I.C.C. 862, 907-08 (1974)
19. DUTR	Yes	Rail	Not Applicable
20. ASRC	Yes	Rail	Not Applicable
21. KCTR	Yes	Rail	Not Applicable
22. SIMB	Yes	Motor	Not Applicable
23. TRRA	Yes	Rail	Not Applicable

SECTION 1180.6(b)(7)

INFORMATION ON NON-CARRIER APPLICANTS

UPC was formed in 1969. In addition to the railroad operations of UP, UPC includes the following major operating companies: Union Pacific Resources Company ("Resources"), an energy and natural resources company; Overnite, a motor carrier handling principally less-than-truckload freight; and Skyway Freight Systems, Inc., a multimodal transportation and logistics management company that UPC acquired in 1993.

On August 4, 1995, Resources filed a registration statement with the SEC in connection with the initial public offering ("IPO") of shares of its common stock (the "Resources Common Stock"), representing no more than 17.25% of the outstanding shares of Resources Common Stock. On October 16 and 17, 1995, Resources sold 42,500,000 shares of Resources Common Stock in the IPO. UPC intends, following approval of the application herein and subject to certain other conditions, to distribute pro rata to its stockholders (including former stockholders of SPR) all of the remaining shares of Resources Common Stock held by UPC (representing approximately 83% of the outstanding shares of Resources Common Stock) by means of a tax-free distribution (the "Spin-Off").

The Spin-Off will be subject to action by UPC's Board of Directors, which action is expected to be subject to (a) the receipt of a favorable ruling from the Internal Revenue Service ("IRS") as to the tax-free nature of the transaction, and (b) the absence of any change in market conditions or other circumstances that causes the Board of

Directors of UPC to conclude that the Spin-Off is not in the best interests of the stockholders of UPC. UPC has not determined what action it would take if it were not to receive the favorable tax ruling. Even if a favorable IRS ruling is obtained, there can be no assurance that the Spin-Off will occur or that UPC will not sell its shares of Resources Common Stock.

SPR, formerly Rio Grande Industries, Inc., is the holding company for SPT and its other subsidiaries. SPR was formed in 1988. SPR has no other significant operations, apart from real estate activities in the ordinary course of business to support rail operations.

SECTION 1180.6(b)(8)

STATEMENT OF DIRECT OR INDIRECT INTERCORPORATE FINANCIAL RELATIONSHIPS

In Decision No. 3, served September 5, 1995, the Commission held that Applicants could comply with Section 1180.6(b)(8) by describing only those relationships involving ownership by Applicants or their affiliates of more than 5% of a non-affiliated carrier's stock, including those relationships not disclosed elsewhere in this application in which a group of people affiliated with Applicants own more than 5% of a non-affiliated carrier's stock. There are no such relationships.

SECTION 1180.7

MARKET IMPACT ANALYSES - EXHIBIT 12

Various steps have been taken to analyze the market impact of the proposed transaction.

First, a detailed Traffic Study was conducted under the direction of UP's Senior Director-Interline Marketing, Richard B. Peterson, to quantify the impact of the UP/SP merger in terms of traffic diversions. The Traffic Study is discussed in Part II of Mr. Peterson's Verified Statement in Volume 2 of the Application (UP/SP-23).

Second, an analysis of the diversions of truck traffic to UP/SP intermodal service that would occur as a result of the merger was conducted by Reebie Associates and Transmode Consultants, and is described in the Verified Statements of Don P. Ainsworth and Paul O. Roberts in this volume.

Third, Mr. Peterson analyzed the effect of the merger on competition, as detailed in Part I of his verified statement.

Fourth, Applicants asked economists Richard J. Barber, Robert D. Willig, Richard G. Sharp and Richard D. Spero to examine competitive impacts of the proposed transaction. Their verified statements are also in Volume 2.

Fifth, SP's Vice President-Network and Corporate Development, John T. Gray, and SP's Vice President-Finance, Lawrence C. Yarberry, whose statements appear in this volume, analyzed the effects on SP's competitiveness of SP's service problems and financial situation.

Sixth, Applicants asked Bernard J. La Londe, a nationally recognized authority on logistics, to analyze the transaction from the perspective of shipper logistics needs. Mr. La Londe's statement is in this volume.

<u>Seventh</u>, Applicants reviewed the proposed transaction with customers, and the views of those customers are expressed in the 1,066 supporting statements contained in Volume 4, Parts 1 through 4, of the application (UP/SP-25).

Taken together, these materials demonstrate that the merger will greatly intensify rail competition throughout the West, for all traffic, in all states and corridors, involving all commodities. See also Section 1180.6(a)(2)(i), "Effects on Competition," above, and Section 1180.6(a)(2((iv), "Effect on Adequacy of Transportation," above.

<u>SECTION 1180.8(a)(1)-(4)</u>

<u>OPERATING PLAN - EXHIBIT 13</u>

The Operating Plan, Exhibit 13, is included in Volume 3 of the Application (UP/SP-24). It provides a realistic picture of how UP and SP operations in all functional and geographic areas would be combined after merger, taking account of the changes in traffic volumes estimated in Applicants' Traffic Study, and describes the resulting UP/SP services to shippers.

The Operating Plan explains in detail how SP and UP, as a result of their merger, will achieve the following objectives: (a) providing high-quality freight service over new routes created by combining UP and SP line segments, such as Seattle-Los Angeles and Los Angeles-Dallas; (b) providing intermodal service in all major corridors that is competitive with services offered by BN/Santa Fe and other carriers; (c) rerouting traffic over more direct routes, thereby eliminating unnecessary mileage, transit time, operating cost, maintenance expense and capital investment; (d) maximizing efficient use of capacity be dedicating routes to specific traffic or directional traffic flows, thereby allowing UP/SP to provide improved and more reliable service with the same assets; and (e) combining functions that are now duplicated in the interest of efficiency and reduced cost.

The Operating Plan describes (a) new traffic patterns, and the services to be provided on new routes; (b) changes in blocking and train schedules to move traffic more reliably at lower cost; (c) consolidations of terminal activities in more than 45 terminals; (d) more than $1.3 billion in technological improvements, new construction, line upgrades, terminal improvements, yard expansions and track connections; (e) coordination and consolidation of information, maintenance, repair, supply and management functions; (f) proposed abandonments; and (g) effects on passenger services. In every respect, the proposed operations and services are practical and feasible.

SECTION 1180.8(a)(5)

DENSITY CHARTS - EXHIBIT 14

Gross ton-mile density charts for UP and SP (Exhibit 14) are found in Volume 3 of the application (UP/SP-24). Attachments 13-5 through 13-8 of the Operating Plan (Exhibit 13), in the same volume, show mileages and changes in the number of trains and gross ton miles for each UP and SP line segment.

SECTION 1180.8(b)

OPERATING PLAN (MINOR TRANSACTIONS) - EXHIBIT 15

Not applicable. Applicants propose a significant transaction, not a minor transaction.

SECTION 1180.9(a)

PRO FORMA BALANCE SHEETS - EXHIBIT 16

Pro forma balance sheets (Exhibit 16) are submitted as Appendix B to this volume.

SECTION 1180.9(b)

PRO FORMA INCOME STATEMENTS - EXHIBIT 17

Pro forma income statements (Exhibit 17) are submitted as Appendix C to this volume.

SECTION 1180.9(c)

SOURCES AND APPLICATION OF FUNDS STATEMENTS - EXHIBIT 18

Sources and application of funds statements (Exhibit 18) are submitted as Appendix D to this volume.

SECTION 1180.9(d)

PROPERTY ENCUMBRANCE - EXHIBIT 19

A description of the property-encumbering debt securities or obligations related to securities of SPR, SPT, SSW, SPCSL and DRGW, including date of issue, date of maturity, interest rate, outstanding balance and property encumbered, is in Exhibit 19 in Appendix E to this volume. See also Section 1180.6(a)(1)(iv), "New Securities and Other Financial Arrangements," above.

SECTION 1180.9(e)

CURRENT BALANCE SHEETS AND INCOME STATEMENTS - EXHIBITS 20 AND 21

Pursuant to Section 1180.9(e), the Commission will incorporate by reference the current balance sheets and income statements of UPRR, MPRR, SPT/SSW and DRGW, which it has on file. Current balance sheets and income statements of UPC, SPT and SPCSL are in Exhibits 20 and 21 in Volume 7 of the Application (UP/SP-28).

PRAYER FOR RELIEF

Wherefore, UPC, UPRR, MPRR, SPR, SPT, SSW, SPCSL and DRGW pray that the Commission:

(1) enter an order under 49 U.S.C. §§ 11301, 11343 and 11344 granting approval and authority for UPC, UPRR and MPRR to (i) acquire and exercise control of SPR, SPT, SSW, SPCSL and DRGW and their rail carrier subsidiaries, subject to imposition as a condition thereto of the settlement agreement between Applicants and BN/Santa Fe; and (ii) issue securities and assume obligations and liabilities related to securities in connection with acquiring and exercising such control, as requested in Finance Docket No. 32760;

(2) determine that the terms of the purchase by Acquisition of the common stock of SPR are fair and reasonable;

(3) take notice of the exempt transaction whereby UPRR, MPRR, SPT, SSW, SPCSL and DRGW will both grant to and receive from BN/Santa Fe trackage rights, as described in Finance Docket No. 32760 (Sub-No. 1);

(4) exempt from 49 U.S.C. § 10901 the line sales agreed to between UPRR, SPT and SSW, on the one hand, and BN/Santa Fe, on the other hand, as requested in Finance Docket No. 32760 (Sub-No. 2);

(5) exempt from 49 U.S.C. §§ 11343, et seq., the control by Applicants of A&S, CCT, OURD, PTRR and PTRC, as requested in Finance Docket No. 32760 (Sub-Nos. 3 through 7);

(6) exempt from 49 U.S.C. §§ 11343, et seq., the creation of common control relationships between Southern Pacific and Overnite, and between Union Pacific and SPMT and PMT, as requested in Finance Docket No. 32760 (Sub-No. 8);

(7) grant terminal trackage rights to BN/Santa Fe over KCS line segments in Beaumont, Texas, and Shreveport, Louisiana, pursuant to the provisions of 49 U.S.C. § 11103, as requested in Finance Docket No. 32760 (Sub-No. 9);

(8) grant the applications in Docket Nos. AB-3 (Sub-Nos. 130 and 131), AB-8 (Sub-Nos. 37, 38 and 39), AB-12 (Sub-No. 188), and AB-33 (Sub-No. 96) for approval of abandonments and trackage rights discontinuances by MPRR, DRGW, SPT and UPRR;

(9) grant the petitions in Docket Nos. AB-3 (Sub-Nos. 129X and 133X), AB-8 (Sub-No. 36X), AB-12 (Sub-Nos. 184X, 185X and 189X), and AB-33 (Sub-No. 98X) for exemption of abandonments by MPRR, DRGW, SPT and UPRR; and

(10) take notice of the exempt abandonments by MPRR, SPT and UPRR described in Docket Nos. AB-3 (Sub-Nos. 132X and 134X), AB-12 (Sub-No. 187X), and AB-33 (Sub-Nos. 93X, 94X, 97X and 99X).

SECTION 1180.6(a)(4)

OPINIONS OF COUNSEL FOR APPLICANTS

UNION PACIFIC CORPORATION

As counsel for Union Pacific Corporation, I am generally familiar with the proposed transactions and have reviewed the foregoing joint Application for authority under 49 U.S.C. Section 11343, et seq., for Union Pacific Corporation, together with certain of its subsidiaries, to acquire and to exercise control of Southern Pacific Rail Corporation, Southern Pacific Transportation Company, St. Louis Southwestern Railway Company and The Denver and Rio Grande Western Railroad Company.

Based on my familiarity and this review, it is my opinion that the transactions described in this Application, including the related applications, petitions for exemption, notices of exemption and issuance of securities and assumption of obligations, meet the requirements of law, are within the corporate powers of Union Pacific Corporation, and will be legally authorized and valid, if approved by the Interstate Commerce Commission and consummated as proposed.

Carl W. von Bernuth
Carl W. von Bernuth
Senior Vice President and General Counsel
Union Pacific Corporation

Dated this 20th day of November, 1995, at Bethlehem, PA.

SECTION 1180.6(a)(4)

OPINIONS OF COUNSEL FOR APPLICANTS

UNION PACIFIC RAILROAD COMPANY
MISSOURI PACIFIC RAILROAD COMPANY

As counsel for Union Pacific Railroad Company ("UPRR") and Missouri Pacific Railroad Company ("MPRR"), I am generally familiar with the proposed transactions and have reviewed the foregoing joint Application for authority under 49 U.S.C. Sections 11343, et seq., for UPRR and MPRR, together with Union Pacific Corporation, to acquire and to exercise control of Southern Pacific Rail Corporation, Southern Pacific Transportation Company, St. Louis Southwestern Railway Company, SPCSL Corp. and The Denver and Rio Grande Western Railroad Company.

Based on my familiarity and this review, it is my opinion that the transactions described in this Application, including the related applications, petitions for exemption, notices of exemption and the issuance of securities and the assumption of obligations, meet the requirements of law, are within the corporate powers of UPRR and MPRR, and will be legally authorized and valid, if approved by the Interstate Commerce Commission and consummated as proposed.

James V. Dolan

James V. Dolan
Vice President-Law
Union Pacific Railroad Company
Missouri Pacific Railroad Company

Dated this 22nd day of November, 1995, at Omaha, Nebraska.

SECTION 1180.6(a)(4)

OPINIONS OF COUNSEL FOR APPLICANTS

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

As counsel for Southern Pacific Rail Corporation, Southern Pacific Transportation Company, St. Louis Southwestern Railway Company, SPCSL Corp. and The Denver and Rio Grande Western Railroad Company, I am generally familiar with the proposed control and merger transaction and have reviewed the foregoing joint Application under 49 U.S.C. Sections 11343-45 for authorization of the merger of Union Pacific Corporation, Union Pacific Railroad Company and Missouri Pacific Railroad Company, on the one hand, and SPRC, SPT, SSW, SPCSL and DRGW, on the other.

Based on my familiarity and this review, it is my opinion that the transactions described in this Application, including the related applications, petitions for exemption, notices of exemption and the issuance of securities and the assumption of obligations, meet the requirements of law, are within the corporate powers of SPRC, SPT, SSW, SPCSL and DRGW, and will be legally authorized and valid, if approved by the Interstate Commerce Commission and consummated as proposed.

Cannon Y. Harvey, Executive Vice President - Finance and Law and General Counsel
Southern Pacific Rail Corporation, Southern Pacific Transportation Company, St. Louis Southwestern Railway Company, SPCSL Corp. and The Denver and Rio Grande Western Railroad Company

Dated this 21st day of November, 1995, at Denver, Colorado.

SECTION 1180.4(c)(2)(i)

SIGNATURES, OATHS, AND CERTIFICATIONS OF APPLICANTS' EXECUTIVE OFFICERS

Union Pacific Corporation
Union Pacific Railroad Company
Missouri Pacific Railroad Company

COMMONWEALTH OF)
PENNSYLVANIA)
)
COUNTY OF LEHIGH)

Richard K. Davidson, being duly sworn, deposes and says that he is President of Union Pacific Corporation, and Chairman of the Board of Union Pacific Railroad Company and Missouri Pacific Railroad Company (collectively "Union Pacific"), applicants herein; that he is one of the executive officers duly authorized to sign, to verify, and to file this Application on behalf of Union Pacific; that he has knowledge of the matters contained in this Application to the extent they relate to Union Pacific; and that his statements made in this Application are true and correct to the best of his knowledge and belief.

Richard K. Davidson
Richard K. Davidson

Subscribed and sworn to before me this 20 day of November, 1995.

Valerie A. Madea
Notary Public

My Commission expires as of 10/10/98.

Notarial Seal
Valerie A. Madea, Notary Public
Allen Twp., Northampton County
My Commission Expires Oct. 10, 1998
Member, Pennsylvania Association of Notaries

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I, Judy L. Swantak, hereby certify that I am Secretary of Union Pacific Corporation, an applicant herein, and that Richard K. Davidson, President of Union Pacific Corporation, is duly authorized to sign, to verify, and to file this Application on behalf of Union Pacific Corporation.

Judy L. Swantak
Judy L. Swantak
Secretary

Dated this 20th day of November, 1995, at Bethlehem, Pennsylvania.

I, Charles W. Saylors, hereby certify that I am Assistant Secretary of Union Pacific Railroad Company and Missouri Pacific Railroad Company, applicants herein, and that Richard K. Davidson, Chairman of the Board of said Companies, is duly authorized to sign, to verify, and to file this application on behalf of Union Pacific Railroad Company and Missouri Pacific Railroad Company.

Charles W. Saylors

Charles W. Saylors
Assistant Secretary

Dated this 22nd day of November, 1995, at Omaha, Nebraska.

SOUTHERN PACIFIC RAIL CORPORATION
SOUTHERN PACIFIC TRANSPORTATION COMPANY
ST. LOUIS SOUTHWESTERN RAILWAY COMPANY
SPCSL CORP.
THE DENVER AND RIO GRANDE WESTERN RAILROAD COMPANY

STATE OF COLORADO)
CITY AND) ss.
COUNTY OF DENVER)

Jerry R. Davis, being duly sworn, deposes and says that he is President and Chief Executive Officer of Southern Pacific Rail Corporation and Chairman and Chief Executive Officer of Southern Pacific Transportation Company, St. Louis Southwestern Railway Company, SPCSL Corp. and The Denver and Rio Grande Western Railroad Company, applicants herein; that he is one of the executive officers duly authorized to sign, to verify, and to file this Application on behalf of the foregoing; that he has knowledge of the matters contained in this Application to the extent they relate to the foregoing; and that the statements made in this Application are true and correct to the best of his knowledge and belief.

Jerry R. Davis

Subscribed and sworn to before me this 17th day of November, 1995.

My commission expires: October 14, 1998.

Karen Sue Johnson
Notary Public

NOTARY PUBLIC
KAREN SUE JOHNSON
STATE OF COLORADO

I, T. F. O'Donnell, hereby certify that I am Secretary of Southern Pacific Rail Corporation, Southern Pacific Transportation Company, St. Louis Southwestern Railway Company, SPCSL Corp. and The Denver and Rio Grande Western Railroad Company, and that Jerry R. Davis, President and Chief Executive Officer of Southern Pacific Rail Corporation, and Chairman and Chief Executive Officer of Southern Pacific Transportation Company, St. Louis Southwestern Railway Company, SPCSL Corp., and The Denver and Rio Grande Western Railroad Company, is duly authorized to sign, to verify, and to file this Application on behalf of the foregoing.

T. F. O'Donnell

Secretary

Dated this 20th day of November, 1995, at San Francisco

CERTIFICATE OF SERVICE

I certify that I have served a conformed copy of the foregoing application in Finance Docket No. 32760, and conformed copies of verified statements, appendices and exhibits in support of the application, by first class mail, properly addressed with postage prepaid, or more expeditious manner of delivery, upon all persons required to be served as set forth in 49 C.F.R. §1180.4(c)(5), namely:

(i) The Governor (or Executive Officer), Public Service Commission, and Department of Transportation of each State in which any part of the real properties of any of the Applicants is situated;

(ii) The Secretary of the United States Department of Transportation (Docket Clerk, Office of Chief Counsel, Federal Railroad Administration, Room 5101, 400 Seventh Street, S.W., Washington, D.C. 20590);

(iii) The Attorney General of the United States;

(iv) The Federal Trade Commission; and

(v) All other persons who requested a copy of the application after the publication in the Federal Register of Applicants' pre-filing notice,

and that I also served copies by the same method of mailing upon all carriers from which the Traffic Study indicated traffic would be diverted (see Verified Statement of Richard B. Peterson, in Volume 2 of the Application (UP/SP-23)).

Dated at Omaha, Nebraska, this 30th day of November, 1995.

Louise A. Rinn

Louise A. Rinn
One of the Attorneys for Applicants

Respectfully submitted,

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November 30, 1995

APPENDIX A

SUMMARY OF BENEFITS

EXHIBIT

SUMMARY OF BENEFITS
($ Thousands)

	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5		NORMAL YEAR
	Annual	One-Time	Annual	One-Time	Annual	One-Time	Annual	One-Time	Annual	One-Time	
NET REVENUE GAINS: (a)	22,814		53,232		60,836		68,441		76,045		76,045
OPERATING BENEFITS:											
Labor Savings	90,585		222,973		255,194		258,390		261,150		261,150
Non-Labor Savings:											
Car Utilization	3,803		8,874		10,142		11,409		12,677		12,677
Communications/Computers	(11,861)	(82,479)	821	(27,716)	26,997	(2,960)	21,719	(1,223)	14,214		14,214
Operations	46,501	(529,947)	102,822	(394,951)	130,467	(266,539)	144,122	(124,960)	157,756	9,905	157,756
General/Administrative	110,797	139,805	116,070	35,300	125,245	62,300	137,970		137,970		137,970
Total Operating Benefits	239,825	(472,621)	451,560	(387,367)	548,045	(207,199)	573,611	(126,183)	583,767	9,905	583,767
Employee Relocation		(26,594)		(44,742)		(3,914)					
Labor Protection / Separation		(107,411)		(67,251)		(11,926)		(1,726)			
SHIPPER LOGISTICS SAVINGS	27,251		63,585		72,669		81,752		90,836		90,836
TOTAL BENEFITS:	289,890	(606,626)	568,377	(499,360)	681,549	(223,039)	723,804	(127,910)	750,648	9,905	750,648

(a) Net of additional cost of handling increased traffic

APPENDIX B

PRO FORMA BALANCE SHEETS

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR CONSOLIDATED BASE YEAR
($000)

	UPC BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UPC/SPR BASE YEAR
ASSETS				
CASH AND CASH EQUIVALENTS	$219,710	$240,600	$0	$460,310
ACCOUNTS RECEIVABLE - NET	539,844	289,400	-	829,244
MATERIALS AND SUPPLIES	284,293	71,800	-	356,093
OTHER CURRENT ASSETS	587,504	70,800	-	658,304
TOTAL CURRENT ASSETS	1,631,351	672,600	-	2,303,951
INVESTMENTS - NET	404,030	79,200	-	483,230
EXCESS ACQUISITION COSTS	870,407	-	-	870,407
OTHER ASSETS	269,766	109,900	-	379,666
TOTAL OTHER ASSETS	1,544,203	189,100	-	1,733,303
PROPERTIES, PLANT AND EQUIPMENT - NET	13,325,111	3,290,400	5,115,710	21,731,221
TOTAL ASSETS	$16,500,665	$4,152,100	$5,115,710	$25,768,475

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR CONSOLIDATED BASE YEAR
($000)

	UPC BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UPC/SPR BASE YEAR
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
ACCRUED ACCOUNTS PAYABLE	$627,213	$327,100	$ -	$954,313
LONG TERM DEBT DUE WITHIN ONE YEAR	522,240	59,500	-	581,740
OTHER CURRENT LIABILITIES	1,224,250	629,200	-	1,853,450
TOTAL CURRENT LIABILITIES	2,373,703	1,015,800	-	3,389,503
NONCURRENT LIABILITIES:				
LONG TERM DEBT DUE AFTER ONE YEAR	4,690,987	1,089,300	1,667,212	7,447,[illegible]
DEFERRED INCOME TAXES	3,451,867	223,400	1,844,410	5,519,[illegible]
OTHER NONCURRENT LIABILITIES	1,036,307	764,900	187,000	1,988,[illegible]07
TOTAL NONCURRENT LIABILITIES	9,179,161	2,077,600	3,698,622	14,955,383
SHAREHOLDERS' EQUITY:				
CAPITAL STOCK	580,000	200	95,023	675,223
ADDITIONAL PAID-IN CAPITAL	1,428,000	1,116,200	1,264,365	3,808,565
RETAINED EARNINGS	4,550,801	(57,700)	57,700	4,550,801
TREASURY STOCK	(1,611,000)	-	-	(1,611,000)
TOTAL SHAREHOLDERS' EQUITY	4,947,801	1,058,700	1,417,088	7,423,589
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$16,500,665	$4,152,100	$5,115,710	$25,768,475

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR ONE
($000)

	UPC/SPR BASE YEAR (1994)	YEAR ONE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR ONE
ASSETS			
CASH AND CASH EQUIVALENTS	$460,310	$0	$460,310
ACCOUNTS RECEIVABLE - NET	829,244	-	829,244
MATERIALS AND SUPPLIES	356,093	-	356,093
OTHER CURRENT ASSETS	658,304	-	658,304
TOTAL CURRENT ASSETS	2,303,951	-	2,303,951
INVESTMENTS - NET	483,230	-	483,230
EXCESS ACQUISITION COSTS	870,407	-	870,407
OTHER ASSETS	379,666	-	379,666
TOTAL OTHER ASSETS	1,733,303	-	1,733,303
PROPERTIES, PLANT AND EQUIPMENT - NET	21,731,221	340,954	22,072,175
TOTAL ASSETS	$25,768,475	$340,954	$26,109,429

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR ONE
($000)

	UPC/SPR BASE YEAR (1994)	YEAR ONE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR ONE
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$954,313	$0	$954,313
LONG TERM DEBT DUE WITHIN ONE YEAR	581,740	-	581,740
OTHER CURRENT LIABILITIES	1,853,450	-	1,853,450
TOTAL CURRENT LIABILITIES	3,389,503	-	3,389,503
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	7,447,499	454,564	7,902,063
DEFERRED INCOME TAXES	5,519,677	(6,425)	5,513,252
OTHER NONCURRENT LIABILITIES	1,988,207	(67,003)	1,921,204
TOTAL NONCURRENT LIABILITIES	14,955,383	381,136	15,336,519
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	675,223	-	675,223
ADDITIONAL PAID-IN CAPITAL	3,808,565	-	3,808,565
RETAINED EARNINGS	4,550,801	(40,182)	4,510,619
TREASURY STOCK	(1,611,000)	-	(1,611,000)
TOTAL SHAREHOLDERS' EQUITY	7,423,589	(40,182)	7,383,407
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$25,768,475	$340,954	$26,109,429

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR TWO
($000)

	UPC/SPR PRO-FORMA YEAR ONE	YEAR TWO ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR TWO
ASSETS			
CASH AND CASH EQUIVALENTS	$460,310	$0	$460,310
ACCOUNTS RECEIVABLE - NET	829,244	-	829,244
MATERIALS AND SUPPLIES	356,093	-	356,093
OTHER CURRENT ASSETS	658,304	-	658,304
TOTAL CURRENT ASSETS	2,303,951	-	2,303,951
INVESTMENTS - NET	483,230	-	483,230
EXCESS ACQUISITION COSTS	870,407	-	870,407
OTHER ASSETS	379,666	-	379,666
TOTAL OTHER ASSETS	1,733,303	-	1,733,303
PROPERTIES, PLANT AND EQUIPMENT - NET	22,072,175	224,895	22,297,070
TOTAL ASSETS	$26,109,429	$224,895	$26,334,324

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EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR TWO
($000)

	UPC/SPR PRO-FORMA YEAR ONE	YEAR TWO ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR TWO
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$954,313	$0	$954,313
LONG TERM DEBT DUE WITHIN ONE YEAR	581,740	-	581,740
OTHER CURRENT LIABILITIES	1,853,450	-	1,853,450
TOTAL CURRENT LIABILITIES	3,389,503	-	3,389,503
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	7,902,063	172,735	8,074,798
DEFERRED INCOME TAXES	5,513,252	38,595	5,551,847
OTHER NONCURRENT LIABILITIES	1,921,204	(65,997)	1,855,207
TOTAL NONCURRENT LIABILITIES	15,336,519	145,333	15,481,852
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	675,223	-	675,223
ADDITIONAL PAID-IN CAPITAL	3,808,565	-	3,808,565
RETAINED EARNINGS	4,510,619	79,562	4,590,181
TREASURY STOCK	(1,611,000)	-	(1,611,000)
TOTAL SHAREHOLDERS' EQUITY	7,383,407	79,562	7,462,969
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$26,109,429	$224,895	$26,334,324

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR THREE
($000)

	UPC/SPR PRO-FORMA YEAR TWO	YEAR THREE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR THREE
ASSETS			
CASH AND CASH EQUIVALENTS	$460,310	$0	$460,310
ACCOUNTS RECEIVABLE - NET	829,244	-	829,244
MATERIALS AND SUPPLIES	356,093	-	356,093
OTHER CURRENT ASSETS	658,304	-	658,304
TOTAL CURRENT ASSETS	2,303,951	-	2,303,951
INVESTMENTS - NET	483,230	-	483,230
EXCESS ACQUISITION COSTS	870,407	-	870,407
OTHER ASSETS	379,666	-	379,666
TOTAL OTHER ASSETS	1,733,303	-	1,733,303
PROPERTIES, PLANT AND EQUIPMENT - NET	22,297,070	34,467	22,331,537
TOTAL ASSETS	$26,334,324	$34,467	$26,368,791

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR THREE
($000)

	UPC/SPR PRO-FORMA YEAR TWO	YEAR THREE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR THREE
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$954,313	$0	$954,313
LONG TERM DEBT DUE WITHIN ONE YEAR	581,740	-	581,740
OTHER CURRENT LIABILITIES	1,853,450	-	1,853,450
TOTAL CURRENT LIABILITIES	3,389,503	-	3,389,503
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	8,074,798	(138,760)	7,936,038
DEFERRED INCOME TAXES	5,551,847	29,264	5,581,111
OTHER NONCURRENT LIABILITIES	1,855,207	(7,920)	1,847,287
TOTAL NONCURRENT LIABILITIES	15,481,852	(117,416)	15,364,436
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	675,223	-	675,223
ADDITIONAL PAID-IN CAPITAL	3,808,565	-	3,808,565
RETAINED EARNINGS	4,590,181	151,883	4,742,064
TREASURY STOCK	(1,611,000)	-	(1,611,000)
TOTAL SHAREHOLDERS' EQUITY	7,462,969	151,883	7,614,852
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$26,334,324	$34,467	$26,368,791

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR FOUR
($000)

	UPC/SPR PRO-FORMA YEAR THREE	YEAR FOUR ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR FOUR
ASSETS			
CASH AND CASH EQUIVALENTS	$460,310	$0	$460,310
ACCOUNTS RECEIVABLE - NET	829,244	-	829,244
MATERIALS AND SUPPLIES	356,093	-	356,093
OTHER CURRENT ASSETS	658,304	-	658,304
TOTAL CURRENT ASSETS	2,303,951	-	2,303,951
INVESTMENTS - NET	483,230	-	483,230
EXCESS ACQUISITION COSTS	870,407	-	870,407
OTHER ASSETS	379,666	-	379,666
TOTAL OTHER ASSETS	1,733,303	-	1,733,303
PROPERTIES, PLANT AND EQUIPMENT - NET	22,331,537	(55,522)	22,276,015
TOTAL ASSETS	$26,368,791	($55,522)	$26,313,269

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR FOUR
($000)

	UPC/SPR PRO-FORMA YEAR THREE	YEAR FOUR ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR FOUR
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$954,313	$0	$954,313
LONG TERM DEBT DUE WITHIN ONE YEAR	581,740	-	581,740
OTHER CURRENT LIABILITIES	1,853,450	-	1,853,450
TOTAL CURRENT LIABILITIES	3,389,503	-	3,389,503
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	7,936,038	(253,603)	7,682,435
DEFERRED INCOME TAXES	5,581,111	20,730	5,601,841
OTHER NONCURRENT LIABILITIES	1,847,287	(863)	1,846,424
TOTAL NONCURRENT LIABILITIES	15,364,436	(233,736)	15,130,700
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	675,223	-	675,223
ADDITIONAL PAID-IN CAPITAL	3,808,565	-	3,808,565
RETAINED EARNINGS	4,742,064	178,214	4,920,278
TREASURY STOCK	(1,611,000)	-	(1,611,000)
TOTAL SHAREHOLDERS' EQUITY	7,614,852	178,214	7,793,066
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$26,368,791	($55,522)	$26,313,269

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR FIVE
($000)

	UPC/SPR PRO-FORMA YEAR FOUR	YEAR FIVE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR FIVE
ASSETS			
CASH AND CASH EQUIVALENTS	$460,310	$0	$460,310
ACCOUNTS RECEIVABLE - NET	829,244	-	829,244
MATERIALS AND SUPPLIES	356,093	-	356,093
OTHER CURRENT ASSETS	658,304	-	658,304
TOTAL CURRENT ASSETS	2,303,951	-	2,303,951
INVESTMENTS - NET	483,230	-	483,230
EXCESS ACQUISITION COSTS	870,407	-	870,407
OTHER ASSETS	379,666	-	379,666
TOTAL OTHER ASSETS	1,733,303	-	1,733,303
PROPERTIES, PLANT AND EQUIPMENT - NET	22,276,015	(192,703)	22,083,312
TOTAL ASSETS	$26,313,269	($192,703)	$26,120,566

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR YEAR FIVE
($000)

	UPC/SPR PRO-FORMA YEAR FOUR	YEAR FIVE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR FIVE
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$954,313	$0	$954,313
LONG TERM DEBT DUE WITHIN ONE YEAR	581,740	-	581,740
OTHER CURRENT LIABILITIES	1,853,450	-	1,853,450
TOTAL CURRENT LIABILITIES	3,389,503	-	3,389,503
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	7,682,435	(400,235)	7,282,200
DEFERRED INCOME TAXES	5,601,841	5,445	5,607,286
OTHER NONCURRENT LIABILITIES	1,846,424	-	1,846,424
TOTAL NONCURRENT LIABILITIES	15,130,700	(394,790)	14,735,910
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	675,223	-	675,223
ADDITIONAL PAID-IN CAPITAL	3,808,565	-	3,808,565
RETAINED EARNINGS	4,920,278	202,087	5,122,365
TREASURY STOCK	(1,611,000)	-	(1,611,000)
TOTAL SHAREHOLDERS' EQUITY	7,793,066	202,087	7,995,153
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$26,313,269	($192,703)	$26,120,566

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR NORMAL YEAR
($000)

	UPC/SPR PRO-FORMA YEAR FIVE	NORMAL YEAR ADJUSTMENTS	UPC/SPR PRO-FORMA NORMAL YEAR
ASSETS			
CASH AND CASH EQUIVALENTS	$460,310	$0	$460,310
ACCOUNTS RECEIVABLE - NET	829,244	-	829,244
MATERIALS AND SUPPLIES	356,093	-	356,093
OTHER CURRENT ASSETS	658,304	-	658,304
TOTAL CURRENT ASSETS	2,303,951	-	2,303,951
INVESTMENTS - NET	483,230	-	483,230
EXCESS ACQUISITION COSTS	870,407	-	870,407
OTHER ASSETS	379,666	-	379,666
TOTAL OTHER ASSETS	1,733,303	-	1,733,303
PROPERTIES, PLANT AND EQUIPMENT - NET	22,083,312	(182,255)	21,901,057
TOTAL ASSETS	$26,120,566	($182,255)	$25,938,311

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UPC/SPR NORMAL YEAR
($000)

	UPC/SPR PRO-FORMA YEAR FIVE	NORMAL YEAR ADJUSTMENTS	UPC/SPR PRO-FORMA NORMAL YEAR
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYA'BLE	$954,313	$0	$954,313
LONG TERM DEBT DUE WITHIN ONE YEAR	581,740	-	581,740
OTHER CURRENT LIABILITIES	1,853,450	-	1,853,450
TOTAL CURRENT LIABILITIES	3,389,503	-	3,389,503
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	7,282,200	(397,671)	6,884,529
DEFERRED INCOME TAXES	5,607,286	(7,741)	5,599,545
OTHER NONCURRENT LIABILITIES	1,846,424	-	1,846,424
TOTAL NONCURRENT LIABILITIES	14,735,910	(405,412)	14,330,498
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	675,223	-	675,223
ADDITIONAL PAID-IN CAPITAL	3,808,565	-	3,808,565
RETAINED EARNINGS	5,122,365	223,157	5,345,522
TREASURY STOCK	(1,611,000)	-	(1,611,000)
TOTAL SHAREHOLDERS' EQUITY	7,995,153	223,157	8,218,310
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$26,120,566	($182,255)	$25,938,311

NOTES TO PRO FORMA BALANCE SHEET

UPC/SPR

BASE YEAR

1. UPC BASE YEAR (1994): Represents the combination of UPC's balance sheet as reported in UPC's 1994 10-K Annual Report and CNWT's balance sheet as reported in CNWT's 1994 10-K Annual Report. An adjustment was made to record the acquisition of the CNWT shares not already owned by UP Rail, Inc. at the date of acquisition of CNWT, as well as, the related purchase accounting adjustments recorded in connection with the acquisition including the recognition of CNWT's assets and liabilities at their fair values. Adjustments also reflect the spin-off of Union Pacific Resources to UPC shareholders.

2. SPR BASE YEAR (1994): Represents SPR's Balance Sheet as reported in SPR's 1994 10-K Annual Report.

3. UPC/SPR BASE YEAR ADJUSTMENTS: Represents the acquisition of SPR and the related purchase accounting adjustments for this transaction.

NOTES TO PRO FORMA BALANCE SHEET

UPC/SPR

YEAR ONE THROUGH NORMAL YEAR

1. PROPERTIES, PLANT AND EQUIPMENT - NET: Represents capital spending necessary to combine operations of the two companies reduced by the book value of property sold and abandoned. Additionally, all years reflect an increase in depreciation expense resulting from the capital spending necessary to combine operations of the two companies and the purchase accounting adjustment to revalue property.

2. LONG TERM DEBT DUE AFTER ONE YEAR: Represents the net change in the long-term debt resulting from the change in net income, proceeds from property sales and abandonments, capital spending, debt discount amortization and certain one-time merger costs.

3. DEFERRED INCOME TAXES: Represents net change in deferred taxes payable related to different book and tax treatment of depreciation expense, debt discount amortization, certain merger related costs and property sales and abandonments.

4. OTHER NONCURRENT LIABILITIES: Represents certain merger costs, including employee separation and relocation costs, which are charged to the merger reserves recognized in purchase accounting.

5. RETAINED EARNINGS: Represents the change in net income.

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR CONSOLIDATED BASE YEAR
($000)

	UP BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UP/SPR BASE YEAR
ASSETS				
CASH AND CASH EQUIVALENTS	$110,751	$240,600	$0	$351,351
ACCOUNTS RECEIVABLE - NET	414,369	289,400	-	703,769
MATERIALS AND SUPPLIES	225,827	71,800	-	297,627
OTHER CURRENT ASSETS	156,973	70,800	-	227,773
TOTAL CURRENT ASSETS	907,920	672,600	-	1,580,520
INVESTMENTS - NET	618,541	79,200	-	697,741
OTHER ASSETS	210,733	109,900	-	320,633
TOTAL OTHER ASSETS	829,274	189,100	-	1,018,374
PROPERTIES, PLANT AND EQUIPMENT - NET	12,856,074	3,290,400	5,115,710	21,262,184
TOTAL ASSETS	$14,593,268	$4,152,100	$5,115,710	$23,861,078

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR CONSOLIDATED BASE YEAR
($000)

	UP BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UP/SPR BASE YEAR
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
ACCRUED ACCOUNTS PAYABLE	$1,279,747	$327,100	$ -	$1,606,847
PAYABLES TO AFFILIATES	1,080,091	-	1,592,212	2,672,303
LONG TERM DEBT DUE WITHIN ONE YEAR	161,942	59,500	-	221,442
OTHER CURRENT LIABILITIES	2,681	629,200	-	631,881
TOTAL CURRENT LIABILITIES	2,524,461	1,015,800	1,592,212	5,132,473
NONCURRENT LIABILITIES:				
LONG TERM DEBT DUE AFTER ONE YEAR	2,247,118	1,089,300	75,000	3,411,418
ACCOUNTS PAYABLE TO AFFILIATES	193,981	-	-	193,981
DEFERRED INCOME TAXES	3,749,180	223,400	1,844,410	5,816,990
OTHER NONCURRENT LIABILITIES	877,271	764,900	187,000	1,829,171
TOTAL NONCURRENT LIABILITIES	7,067,550	2,077,600	2,106,410	11,251,560
SHAREHOLDERS' EQUITY:				
CAPITAL STOCK	224,289	200	(200)	224,289
ADDITIONAL PAID-IN CAPITAL	315,702	1,116,200	1,359,588	2,791,490
RETAINED EARNINGS	4,461,266	(57,700)	57,700	4,461,266
TOTAL SHAREHOLDERS' EQUITY	5,001,257	1,058,700	1,417,088	7,477,045
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$14,593,268	$4,152,100	$5,115,710	$23,861,078

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR ONE
($000)

	UP/SPR BASE YEAR (1994)	YEAR ONE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR ONE
ASSETS			
CASH AND CASH EQUIVALENTS	$351,351	$0	$351,351
ACCOUNTS RECEIVABLE - NET	703,769	-	703,769
MATERIALS AND SUPPLIES	297,627	-	297,627
OTHER CURRENT ASSETS	227,773	-	227,773
TOTAL CURRENT ASSETS	1,580,520	-	1,580,520
INVESTMENTS - NET	697,741	-	697,741
OTHER ASSETS	320,633	-	320,633
TOTAL OTHER ASSETS	1,018,374	-	1,018,374
PROPERTIES, PLANT AND EQUIPMENT - NET	21,262,184	340,954	21,603,138
TOTAL ASSETS	$23,861,078	$340,954	$24,202,032

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR ONE
($000)

	UP/SPR BASE YEAR (1994)	YEAR ONE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR ONE
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$1,606,847	$0	$1,606,847
PAYABLES TO AFFILIATES	2,672,303	461,382	3,133,685
LONG TERM DEBT DUE WITHIN ONE YEAR	221,442	-	221,442
OTHER CURRENT LIABILITIES	631,881	-	631,881
TOTAL CURRENT LIABILITIES	5,132,473	461,382	5,593,855
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	3,411,418	(6,818)	3,404,600
ACCOUNTS PAYABLE TO AFFILIATES	193,981	-	193,981
DEFERRED INCOME TAXES	5,816,990	(6,425)	5,810,565
OTHER NONCURRENT LIABILITIES	1,829,171	(67,003)	1,762,168
TOTAL NONCURRENT LIABILITIES	11,251,560	(80,246)	11,171,314
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	224,289	-	224,289
ADDITIONAL PAID-IN CAPITAL	2,791,490	-	2,791,490
RETAINED EARNINGS	4,461,266	(40,182)	4,421,084
TOTAL SHAREHOLDERS' EQUITY	7,477,045	(40,182)	7,436,863
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$23,861,078	$340,954	$24,202,032

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR TWO
($000)

	UP/SPR PRO-FORMA YEAR ONE	YEAR TWO ADJUSTMENTS	UP/SPR PRO-FORMA YEAR TWO
ASSETS			
CASH AND CASH EQUIVALENTS	$351,351	$0	$351,351
ACCOUNTS RECEIVABLE - NET	703,769	-	703,769
MATERIALS AND SUPPLIES	297,627	-	297,627
OTHER CURRENT ASSETS	227,773	-	227,773
TOTAL CURRENT ASSETS	1,580,520	-	1,580,520
INVESTMENTS - NET	697,741	-	697,741
OTHER ASSETS	320,633	-	320,633
TOTAL OTHER ASSETS	1,018,374	-	1,018,374
PROPERTIES, PLANT AND EQUIPMENT - NET	21,603,138	224,895	21,828,033
TOTAL ASSETS	$24,202,032	$224,895	$24,426,927

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR TWO
($000)

	UP/SPR PRO-FORMA YEAR ONE	YEAR TWO ADJUSTMENTS	UP/SPR PRO-FORMA YEAR TWO
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$1,606,847	$0	$1,606,847
PAYABLES TO AFFILIATES	3,133,685	211,378	3,345,063
LONG TERM DEBT DUE WITHIN ONE YEAR	221,442	-	221,442
OTHER CURRENT LIABILITIES	631,881	-	631,881
TOTAL CURRENT LIABILITIES	5,593,855	211,378	5,805,233
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	3,404,600	(6,818)	3,397,782
ACCOUNTS PAYABLE TO AFFILIATES	193,981	-	193,981
DEFERRED INCOME TAXES	5,810,565	38,595	5,849,160
OTHER NONCURRENT LIABILITIES	1,762,168	(65,997)	1,696,171
TOTAL NONCURRENT LIABILITIES	11,171,314	(34,220)	11,137,094
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	224,289	-	224,289
ADDITIONAL PAID-IN CAPITAL	2,791,490	-	2,791,490
RETAINED EARNINGS	4,421,084	47,737	4,468,821
TOTAL SHAREHOLDERS' EQUITY	7,436,863	47,737	7,484,600
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$24,202,032	$224,895	$24,426,927

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR THREE
($000)

	UP/SPR PRO-FORMA YEAR TWO	YEAR THREE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR THREE
ASSETS			
CASH AND CASH EQUIVALENTS	$351,351	$0	$351,351
ACCOUNTS RECEIVABLE - NET	703,769	-	703,769
MATERIALS AND SUPPLIES	297,627	-	297,627
OTHER CURRENT ASSETS	227,773	-	227,773
TOTAL CURRENT ASSETS	1,580,520	-	1,580,520
INVESTMENTS - NET	697,741	-	697,741
OTHER ASSETS	320,633	-	320,633
TOTAL OTHER ASSETS	1,018,374	-	1,018,374
PROPERTIES, PLANT AND EQUIPMENT - NET	21,828,033	34,467	21,862,500
TOTAL ASSETS	$24,426,927	$34,467	$24,461,394

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR THREE
($000)

	UP/SPR PRO-FORMA YEAR TWO	YEAR THREE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR THREE
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$1,606,847	$0	$1,606,847
PAYABLES TO AFFILIATES	3,345,063	(70,183)	3,274,880
LONG TERM DEBT DUE WITHIN ONE YEAR	221,442	-	221,442
OTHER CURRENT LIABILITIES	631,881	-	631,881
TOTAL CURRENT LIABILITIES	5,805,233	(70,183)	5,735,050
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	3,397,782	(6,818)	3,390,964
ACCOUNTS PAYABLE TO AFFILIATES	193,981	-	193,981
DEFERRED INCOME TAXES	5,849,160	29,264	5,878,424
OTHER NONCURRENT LIABILITIES	1,696,171	(7,920)	1,688,251
TOTAL NONCURRENT LIABILITIES	11,137,094	14,526	11,151,620
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	224,289	-	224,289
ADDITIONAL PAID-IN CAPITAL	2,791,490	-	2,791,490
RETAINED EARNINGS	4,468,821	90,124	4,558,945
TOTAL SHAREHOLDERS' EQUITY	7,484,600	90,124	7,574,724
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$24,426,927	$34,467	$24,461,394

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR FOUR
($000)

	UP/SPR PRO-FORMA YEAR THREE	YEAR FOUR ADJUSTMENTS	UP/SPR PRO-FORMA YEAR FOUR
ASSETS			
CASH AND CASH EQUIVALENTS	$351,351	$0	$351,351
ACCOUNTS RECEIVABLE - NET	703,769	-	703,769
MATERIALS AND SUPPLIES	297,627	-	297,627
OTHER CURRENT ASSETS	227,773	-	227,773
TOTAL CURRENT ASSETS	1,580,520	-	1,580,520
INVESTMENTS - NET	697,741	-	697,741
OTHER ASSETS	320,633	-	320,633
TOTAL OTHER ASSETS	1,018,374	-	1,018,374
PROPERTIES, PLANT AND EQUIPMENT - NET	21,862,500	(55,522)	21,806,978
TOTAL ASSETS	$24,461,394	($55,522)	$24,405,872

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR FOUR
($000)

	UP/SPR PRO-FORMA YEAR THREE	YEAR FOUR ADJUSTMENTS	UP/SPR PRO-FORMA YEAR FOUR
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$1,606,847	$0	$1,606,847
PAYABLES TO AFFILIATES	3,274,880	(172,541)	3,102,339
LONG TERM DEBT DUE WITHIN ONE YEAR	221,442	-	221,442
OTHER CURRENT LIABILITIES	631,881	-	631,881
TOTAL CURRENT LIABILITIES	5,735,050	(172,541)	5,562,509
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	3,390,964	(6,818)	3,384,146
ACCOUNTS PAYABLE TO AFFILIATES	193,981	-	193,981
DEFERRED INCOME TAXES	5,878,424	20,730	5,899,154
OTHER NONCURRENT LIABILITIES	1,688,251	(863)	1,687,388
TOTAL NONCURRENT LIABILITIES	11,151,620	13,049	11,164,669
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	224,289	-	224,289
ADDITIONAL PAID-IN CAPITAL	2,791,490	-	2,791,490
RETAINED EARNINGS	4,558,945	103,970	4,662,915
TOTAL SHAREHOLDERS' EQUITY	7,574,724	103,970	7,678,694
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$24,461,394	($55,522)	$24,405,872

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR FIVE
($000)

	UP/SPR PRO-FORMA YEAR FOUR	YEAR FIVE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR FIVE
ASSETS			
CASH AND CASH EQUIVALENTS	$351,351	$0	$351,351
ACCOUNTS RECEIVABLE - NET	703,769	-	703,769
MATERIALS AND SUPPLIES	297,627	-	297,627
OTHER CURRENT ASSETS	227,773	-	227,773
TOTAL CURRENT ASSETS	1,580,520	-	1,580,520
INVESTMENTS - NET	697,741	-	697,741
OTHER ASSETS	320,633	-	320,633
TOTAL OTHER ASSETS	1,018,374	-	1,018,374
PROPERTIES, PLANT AND EQUIPMENT - NET	21,806,978	(192,703)	21,614,275
TOTAL ASSETS	$24,405,872	($192,703)	$24,213,169

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR YEAR FIVE
($000)

	UP/SPR PRO-FORMA YEAR FOUR	YEAR FIVE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR FIVE
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$1,606,847	$0	$1,606,847
PAYABLES TO AFFILIATES	3,102,339	(307,276)	2,795,063
LONG TERM DEBT DUE WITHIN ONE YEAR	221,442	-	221,442
OTHER CURRENT LIABILITIES	631,881	-	631,881
TOTAL CURRENT LIABILITIES	5,562,509	(307,276)	5,255,233
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	3,384,146	(6,818)	3,377,328
ACCOUNTS PAYABLE TO AFFILIATES	193,981	-	193,981
DEFERRED INCOME TAXES	5,899,154	5,445	5,904,599
OTHER NONCURRENT LIABILITIES	1,687,388	-	1,687,388
TOTAL NONCURRENT LIABILITIES	11,164,669	(1,373)	11,163,296
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	224,289	-	224,289
ADDITIONAL PAID-IN CAPITAL	2,791,490	-	2,791,490
RETAINED EARNINGS	4,662,915	115,946	4,778,861
TOTAL SHAREHOLDERS' EQUITY	7,678,694	115,946	7,794,640
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$24,405,872	($192,703)	$24,213,169

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR NORMAL YEAR
($000)

	UP/SPR PRO-FORMA YEAR FIVE	NORMAL YEAR ADJUSTMENTS	UP/SPR PRO-FORMA NORMAL YEAR
ASSETS			
CASH AND CASH EQUIVALENTS	$351,351	$0	$351,351
ACCOUNTS RECEIVABLE - NET	703,769	-	703,769
MATERIALS AND SUPPLIES	297,627	-	297,627
OTHER CURRENT ASSETS	227,773	-	227,773
TOTAL CURRENT ASSETS	1,580,520	-	1,580,520
INVESTMENTS - NET	697,741	-	697,741
OTHER ASSETS	320,633	-	320,633
TOTAL OTHER ASSETS	1,018,374	-	1,018,374
PROPERTIES, PLANT AND EQUIPMENT - NET	21,614,275	(182,255)	21,432,020
TOTAL ASSETS	$24,213,169	($182,255)	$24,030,914

EXHIBIT 16

SECTION 1180.9(a)
PRO FORMA BALANCE SHEET
UP/SPR NORMAL YEAR
($000)

	UP/SPR PRO-FORMA YEAR FIVE	NORMAL YEAR ADJUSTMENTS	UP/SPR PRO-FORMA NORMAL YEAR
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
ACCRUED ACCOUNTS PAYABLE	$1,606,847	$0	$1,606,847
PAYABLES TO AFFILIATES	2,795,063	(293,560)	2,501,503
LONG TERM DEBT DUE WITHIN ONE YEAR	221,442	-	221,442
OTHER CURRENT LIABILITIES	631,881	-	631,881
TOTAL CURRENT LIABILITIES	5,255,233	(293,560)	4,961,673
NONCURRENT LIABILITIES:			
LONG TERM DEBT DUE AFTER ONE YEAR	3,377,328	(6,818)	3,370,510
ACCOUNTS PAYABLE TO AFFILIATES	193,981	-	193,981
DEFERRED INCOME TAXES	5,904,599	(7,741)	5,896,858
OTHER NONCURRENT LIABILITIES	1,687,388	-	1,687,388
TOTAL NONCURRENT LIABILITIES	11,163,296	(14,559)	11,148,737
SHAREHOLDERS' EQUITY:			
CAPITAL STOCK	224,289	-	224,289
ADDITIONAL PAID-IN CAPITAL	2,791,490	-	2,791,490
RETAINED EARNINGS	4,778,861	125,864	4,904,725
TOTAL SHAREHOLDERS' EQUITY	7,794,640	125,864	7,920,504
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$24,213,169	($182,255)	$24,030,914

NOTES TO PRO FORMA BALANCE SHEET

UP/SPR

BASE YEAR

1. UP BASE YEAR (1994): Represents the combination of UP's balance sheet as reported in UP's 1994 R-1 Annual Report, the 1994 balance sheet of UP Rail, Inc., and CNWT's balance sheet as reported in CNWT's 1994 10-K Annual Report. An adjustment was made to record the acquisition of the CNWT shares not already owned by UP Rail, Inc. at the date of acquisition of CNWT, as well as the related purchase accounting adjustments recorded in connection with the acquisition including the recognition of CNWT's assets and liabilities at their fair values.

2. SPR BASE YEAR (1994): Represents SPR's balance sheet as reported in SPR's 1994 10-K Annual Report.

3. UP/SPR BASE YEAR ADJUSTMENTS: Represents the acquisition of SPR and the related purchase accounting adjustments for this transaction.

NOTES TO PRO FORMA BALANCE SHEET

UP/SPR

YEAR ONE THROUGH NORMAL YEAR

1. PROPERTIES, PLANT AND EQUIPMENT - NET: Represents capital spending necessary to combine operations of the two companies reduced by the book value of property sold and abandoned. Additionally, all years reflect an increase in depreciation expense resulting from the capital spending necessary to combine operations of the two companies and the purchase accounting adjustment to revalue property.

2. PAYABLES TO AFFILIATES: Represents the net change in the payable to UPC resulting from the change in net income, proceeds from property sales and abandonments, capital spending, dividends and certain one-time merger costs.

3. LONG TERM DEBT DUE AFTER ONE YEAR: Represents the amortization of the discount on SPR's debt.

4. DEFERRED INCOME TAXES: Represents net change in deferred taxes payable related to different book and tax treatment of depreciation expense, debt discount amortization, certain merger related costs and property sales and abandonments.

5. OTHER NONCURRENT LIABILITIES: Represents certain merger costs, including employee separation and relocation costs, which are charged to the merger reserves recognized in purchase accounting.

6. RETAINED EARNINGS: Represents the change in net income, reduced by dividends payable to UPC.

APPENDIX C

PRO FORMA INCOME STATEMENTS

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UPC/SPR CONSOLIDATED BASE YEAR
($000)

	UPC BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UPC/SPR BASE YEAR
REVENUES	$7,546,833	$3,082,300	$ -	$10,629,133
OPERATING EXPENSES	6,055,810	2,754,757	-	8,810,567
OPERATING INCOME	1,491,023	327,543	-	1,818,566
OTHER INCOME/(EXPENSE):				
INTEREST EXPENSE	(435,862)	(158,200)	-	(594,062)
OTHER INCOME/(EXPENSE)	20,832	(41,400)	-	(20,568)
TOTAL OTHER INCOME/(EXPENSE)	(415,030)	(199,600)	-	(614,630)
INCOME BEFORE TAXES	1,075,993	127,943	-	1,203,936
PROVISION FOR INCOME TAXES:				
CURRENT INCOME TAXES	197,375	3,700	-	201,075
DEFERRED INCOME TAXES	208,317	50,388	-	258,705
TOTAL PROVISION FOR INCOME TAXES	405,692	54,088	-	459,780
NET INCOME	$670,301	$73,855	$0	$744,156

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UPC/SPR YEAR ONE
($000)

	UPC/SPR BASE YEAR (1994)	YEAR ONE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR ONE
REVENUES	$10,629,133	$69,551	$10,698,684
OPERATING EXPENSES	8,810,567	35,515	8,846,082
OPERATING INCOME	1,318,566	34,036	1,852,602
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(594,062)	(128,520)	(722,582)
OTHER INCOME/(EXPENSE)	(20,568)	29,935	9,367
TOTAL OTHER INCOME/(EXPENSE)	(614,630)	(98,585)	(713,215)
INCOME BEFORE TAXES	1,203,936	(64,549)	1,139,387
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	201,075	(17,942)	183,133
DEFERRED INCOME TAXES	258,705	(6,425)	252,280
TOTAL PROVISION FOR INCOME TAXES	459,780	(24,367)	435,413
NET INCOME	$744,156	($40,182)	$703,974

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UPC/SPR YEAR TWO
($000)

	UPC/SPR BASE YEAR (1994)	YEAR TWO ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR TWO
REVENUES	$10,629,133	$162,285	$10,791,418
OPERATING EXPENSES	8,810,567	(123,399)	8,687,168
OPERATING INCOME	1,818,566	285,684	2,104,250
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(594,062)	(167,738)	(761,800)
OTHER INCOME/(EXPENSE)	(20,568)	10,640	(9,928)
TOTAL OTHER INCOME/(EXPENSE)	(614,630)	(157,098)	(771,728)
INCOME BEFORE TAXES	1,203,936	128,586	1,332,522
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	201,075	10,429	211,504
DEFERRED INCOME TAXES	258,705	38,595	297,300
TOTAL PROVISION FOR INCOME TAXES	459,780	49,024	508,804
NET INCOME	$744,156	$79,562	$823,718

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UPC/SPR YEAR THREE
($000)

	UPC/SPR BASE YEAR (1994)	YEAR THREE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR THREE
REVENUES	$10,629,133	$185,468	$10,814,601
OPERATING EXPENSES	8,810,567	(241,599)	8,568,968
OPERATING INCOME	1,818,566	427,067	2,245,633
OTHER INCOME/(EXPENSE)			
INTEREST EXPENSE	(594,062)	(183,000)	(777,062)
OTHER INCOME/(EXPENSE)	(20,568)	1,163	(19,405)
TOTAL OTHER INCOME/(EXPENSE)	(614,630)	(181,837)	(796,467)
INCOME BEFORE TAXES	1,203,936	245,230	1,449,166
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	201,075	64,083	265,158
DEFERRED INCOME TAXES	258,705	29,264	287,969
TOTAL PROVISION FOR INCOME TAXES	459,780	93,347	553,127
NET INCOME	$744,156	$151,883	$896,039

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UPC/SPR YEAR FOUR
($000)

	UPC/SPR BASE YEAR (1994)	YEAR FOUR ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR FOUR
REVENUES	$10,629,133	$209,491	$10,838,624
OPERATING EXPENSES	8,810,567	(248,831)	8,561,736
OPERATING INCOME	1,818,566	458,322	2,276,888
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(594,062)	(171,785)	(765,847)
OTHER INCOME/(EXPENSE)	(20,568)	1,163	(19,405)
TOTAL OTHER INCOME/(EXPENSE)	(614,630)	(170,622)	(785,252)
INCOME BEFORE TAXES	1,203,936	287,700	1,491,636
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	201,075	88,756	289,831
DEFERRED INCOME TAXES	258,705	20,730	279,435
TOTAL PROVISION FOR INCOME TAXES	459,780	109,486	569,266
NET INCOME	$744,156	$178,214	$922,370

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EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UPC/SPR YEAR FIVE
($000)

	UPC/SPR BASE YEAR (1994)	YEAR FIVE ADJUSTMENTS	UPC/SPR PRO-FORMA YEAR FIVE
REVENUES	$10,629,133	$231,835	$10,860,968
OPERATING EXPENSES	8,810,567	(244,017)	8,566,550
OPERATING INCOME	1,818,566	475,852	2,294,418
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(594,062)	(150,808)	(744,870)
OTHER INCOME/(EXPENSE)	(20,568)	1,163	(19,405)
TOTAL OTHER INCOME/(EXPENSE)	(614,630)	(149,645)	(764,275)
INCOME BEFORE TAXES	1,203,936	326,207	1,530,143
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	201,075	118,675	319,750
DEFERRED INCOME TAXES	258,705	5,445	264,150
TOTAL PROVISION FOR INCOME TAXES	459,780	124,120	583,900
NET INCOME	$744,156	$202,087	$946,243

EXHIBIT 17

SECTION 1: 80.9(b)
PRO FORMA INCOME STATEMENT
UPC/SPR NORMAL YEAR
($000)

	UPC/SPR BASE YEAR (1994)	NORMAL YEAR ADJUSTMENTS	UPC/SPR PRO-FORMA NORMAL YEAR
REVENUES	$10,629,133	$231,835	$10,860,968
OPERATING EXPENSES	8,810,567	(245,722)	8,564,845
OPERATING INCOME	1,818,566	477,557	2,296,123
OTHER INCOME/(EXPENSE)			
INTEREST EXPENSE	(594,062)	(117,367)	(711,429)
OTHER INCOME/(EXPENSE)	(20,568)	-	(20,568)
TOTAL OTHER INCOME/(EXPENSE)	(614,630)	(117,367)	(731,997)
INCOME BEFORE TAXES	1,203,936	360,190	1,564,126
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	201,075	144,774	345,849
DEFERRED INCOME TAXES	258,705	(7,741)	250,964
TOTAL PROVISION FOR INCOME TAXES	459,780	137,033	596,813
NET INCOME	$744,156	$223,157	$967,313

NOTES TO PRO FORMA INCOME STATEMENT

UPC/SPR

BASE YEAR

1. UPC BASE YEAR (1994): Represents the combination of UPC's income statement as reported in UPC's 1994 10-K Annual Report and CNWT's income statement as reported in CNWT's 1994 10-K Annual report. Adjustments were made to: (1) record the after-tax net income impact of purchase accounting adjustments associated with the acquisition of the remaining outstanding CNWT shares not already owned by UP Rail, Inc. at the date of acquisition of CNWT; (2) record after-tax interest expense on debt issued to purchase such CNWT shares; (3) eliminate UP Rail, Inc.'s. after-tax equity income from its investment in CNWT, (4) record the after-tax net benefits associated with the UP/CNW merger; (5) record the after-tax net losses associated with the BN/Santa Fe merger; (6) eliminate CNWT's 1994 special charge; (7) record the spin-off of Union Pacific Resources; and (8) eliminate the loss from discontinued operations associated with UPC's waste management business segment which was sold at year-end 1994.

2. SPR BASE YEAR (1994): Represents SPR's income statement as reported in SPR's 1994 10-K Annual Report. Adjustments were made to: (1) record the after-tax net losses associated with the UP/CNW merger; (2) record the after-tax net losses associated with the BN/Santa Fe merger; (3) eliminate after-tax gains on property sales; and (4) eliminate the cumulative effect of accounting changes recorded by SPR in 1994.

NOTES TO PRO FORMA INCOME STATEMENT

UPC/SPR

YEAR ONE THROUGH NORMAL YEAR

1. REVENUES: Represents gross revenue gains from additional traffic, net of gross revenue losses from settlement with BN/Santa Fe.

2. OPERATING EXPENSES: Represents the net benefits from operating and facility efficiencies, reduced by the additional expenses incurred to handle increased traffic, increased depreciation expense and one-time costs.

3. INTEREST EXPENSE: Represents interest expense on debt issued to purchase SPR reduced by the amortization of the debt discount.

4. OTHER INCOME: Represents gains on property sales and abandonments. These gains are expected to occur primarily on UPC properties since SPR properties will be recorded at their fair values in purchase accounting.

5. PROVISION FOR INCOME TAXES: The change in income taxes reflects current and deferred taxes computed at the statutory federal rate for 1994 of 35%, plus 3% to reflect the estimated net state tax rate.

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UP/SPR CONSOLIDATED BASE YEAR
($000)

	UP BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UP/SPR BASE YEAR
REVENUES	$6,243,748	$3,082,300	$ -	$9,326,048
OPERATING EXPENSES	4,902,656	2,754,757	-	7,657,413
OPERATING INCOME	1,341,092	327,543	-	1,668,635
OTHER INCOME/(EXPENSE)				
INTEREST EXPENSE	(366,680)	(158,200)	-	(524,880)
OTHER INCOME/(EXPENSE)	215,467	(41,400)	-	174,067
TOTAL OTHER INCOME/(EXPENSE)	(151,213)	(199,600)	-	(350,813)
INCOME BEFORE TAXES	1,189,879	127,943	-	1,317,822
PROVISION FOR INCOME TAXES:				
CURRENT INCOME TAXES	284,945	3,700	-	288,645
DEFERRED INCOME TAXES	137,938	50,388	-	188,326
TOTAL PROVISION FOR INCOME TAXES	422,883	54,088	-	476,971
NET INCOME	$766,996	$73,855	$0	$840,851

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UP/SPR YEAR ONE
($000)

	UP/SPR BASE YEAR (1994)	YEAR ONE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR ONE
REVENUES	$9,326,048	$69,551	$9,395,599
OPERATING EXPENSES	7,657,413	35,515	7,692,928
OPERATING INCOME	1,668,635	34,036	1,702,671
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(524,880)	(128,520)	(653,400)
OTHER INCOME/(EXPENSE)	174,067	29,935	204,002
TOTAL OTHER INCOME/(EXPENSE)	(350,813)	(98,585)	(449,398)
INCOME BEFORE TAXES	1,317,822	(64,549)	1,253,273
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	288,645	(17,942)	270,703
DEFERRED INCOME TAXES	188,326	(6,425)	181,901
TOTAL PROVISION FOR INCOME TAXES	476,971	(24,367)	452,604
NET INCOME	$840,851	($40,182)	$800,669

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UP/SPR YEAR TWO
($000)

	UP/SPR BASE YEAR (1994)	YEAR TWO ADJUSTMENTS	UP/SPR PRO-FORMA YEAR TWO
REVENUES	$9,326,048	$162,285	$9,488,333
OPERATING EXPENSES	7,657,413	(123,399)	7,534,014
OPERATING INCOME	1,668,635	285,684	1,954,319
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(524,880)	(167,738)	(692,618)
OTHER INCOME/(EXPENSE)	174,067	10,640	184,707
TOTAL OTHER INCOME/(EXPENSE)	(350,813)	(157,098)	(507,911)
INCOME BEFORE TAXES	1,317,822	128,586	1,446,408
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	288,645	10,429	299,074
DEFERRED INCOME TAXES	188,326	38,595	226,921
TOTAL PROVISION FOR INCOME TAXES	476,971	49,024	525,995
NET INCOME	$840,851	$79,562	$920,413

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UP/SPR YEAR THREE
($000)

	UP/SPR BASE YEAR (1994)	YEAR THREE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR THREE
REVENUES	$9,326,048	$185,468	$9,511,516
OPERATING EXPENSES	7,657,413	(241,599)	7,415,814
OPERATING INCOME	1,668,635	427,067	2,095,702
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(524,880)	(185,705)	(710,585)
OTHER INCOME/(EXPENSE)	174,067	1,163	175,230
TOTAL OTHER INCOME/(EXPENSE)	(350,813)	(184,542)	(535,355)
INCOME BEFORE TAXES	1,317,822	242,525	1,560,347
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	288,645	63,055	351,700
DEFERRED INCOME TAXES	188,326	29,264	217,590
TOTAL PROVISION FOR INCOME TAXES	476,971	92,319	569,290
NET INCOME	$840,851	$150,206	$991,057

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UP/SPR YEAR FOUR
($000)

	UP/SPR BASE YEAR (1994)	YEAR FOUR ADJUSTMENTS	UP/SPR PRO-FORMA YEAR FOUR
REVENUES	$9,326,048	$209,491	$9,535,539
OPERATING EXPENSES	7,657,413	(248,831)	7,408,582
OPERATING INCOME	1,668,635	458,322	2,126,957
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(524,880)	(179,739)	(704,619)
OTHER INCOME/(EXPENSE)	174,067	1,163	175,230
TOTAL OTHER INCOME/(EXPENSE)	(350,813)	(178,576)	(529,389)
INCOME BEFORE TAXES	1,317,822	279,746	1,597,568
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	288,645	85,733	374,378
DEFERRED INCOME TAXES	188,326	20,730	209,056
TOTAL PROVISION FOR INCOME TAXES	476,971	106,463	583,434
NET INCOME	$840,851	$173,283	$1,014,134

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UP/SPR YEAR FIVE
($000)

	UP/SPR BASE YEAR (1994)	YEAR FIVE ADJUSTMENTS	UP/SPR PRO-FORMA YEAR FIVE
REVENUES	$9,326,048	$231,835	$9,557,883
OPERATING EXPENSES	7,657,413	(244,017)	7,413,396
OPERATING INCOME	1,668,635	475,852	2,144,487
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(524,880)	(165,073)	(689,953)
OTHER INCOME/(EXPENSE)	174,067	1,163	175,230
TOTAL OTHER INCOME/(EXPENSE)	(350,813)	(163,910)	(514,723)
INCOME BEFORE TAXES	1,317,822	311,942	1,629,764
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	288,645	113,254	401,899
DEFERRED INCOME TAXES	188,326	5,445	193,771
TOTAL PROVISION FOR INCOME TAXES	476,971	118,699	595,670
NET INCOME	$840,851	$193,243	$1,034,094

EXHIBIT 17

SECTION 1180.9(b)
PRO FORMA INCOME STATEMENT
UP/SPR NORMAL YEAR
($000)

	UP/SPR BASE YEAR (1994)	NORMAL YEAR ADJUSTMENTS	UP/SPR PRO-FORMA NORMAL YEAR
REVENUES	$9,326,048	$231,835	$9,557,883
OPERATING EXPENSES	7,657,413	(245,722)	7,411,691
OPERATING INCOME	1,668,635	477,557	2,146,192
OTHER INCOME/(EXPENSE):			
INTEREST EXPENSE	(524,880)	(138,955)	(663,835)
OTHER INCOME/(EXPENSE)	174,067	-	174,067
TOTAL OTHER INCOME/(EXPENSE)	(350,813)	(138,955)	(489,768)
INCOME BEFORE TAXES	1,317,822	338,602	1,656,424
PROVISION FOR INCOME TAXES:			
CURRENT INCOME TAXES	288,645	136,570	425,215
DEFERRED INCOME TAXES	188,326	(7,741)	180,585
TOTAL PROVISION FOR INCOME TAXES	476,971	128,829	605,800
NET INCOME	$840,851	$209,773	$1,050,624

NOTES TO PRO FORMA INCOME STATEMENT

UP/SPR

BASE YEAR

1. UP BASE YEAR (1994): Represents the combination of UP's income statement as reported in UP's 1994 R-1 Annual Report, the 1994 income statement of UP Rail, Inc., and CNWT's income statement as reported in CNWT's 1994 10-K Annual Report. Adjustments were made to: (1) record the after-tax net income impact of purchase accounting adjustments associated with the acquisition of the remaining outstanding shares of CNWT not already owned by UP Rail, Inc. at the date of acquisition of CNWT; (2) record the after-tax interest expense on debt issued to purchase such CNWT shares; (3) eliminate UP Rail, Inc.'s after-tax equity income from its investment in CNWT; (4) record the after-tax net benefits associated with the UP/CNW merger; (5) record the after-tax net losses associated with the BN/Santa Fe merger; and (6) eliminate CNWT's 1994 special charge.

2. SPR BASE YEAR (1994): Represents SPR's income statement as reported in SPR's 1994 10-K Annual Report. Adjustments were made to: (1) record the after-tax net losses associated with the UP/CNW merger; (2) record the after-tax net losses associated with the BN/Santa Fe merger; (3) eliminate after-tax gains on property sales; and (4) eliminate the cumulative effect of accounting changes recorded by SPR in 1994.

NOTES TO PRO FORMA INCOME STATEMENT

UP/SPR

YEAR ONE THROUGH NORMAL YEAR

1. REVENUES: Represents gross revenue gains from additional traffic, net of gross revenue losses from settlement with BN/Santa Fe.

2. OPERATING EXPENSES: Represents the net benefits from operating and facility efficiencies, reduced by the additional expenses incurred to handle increased traffic, increased depreciation expense and one-time costs.

3. INTEREST EXPENSE: Represents interest expense on the intercompany payable to UPC, reduced by the amortization of the debt discount.

4. OTHER INCOME: Represents gains on property sales and abandonments. These gains are expected to occur primarily on UP properties since SPR properties will be recorded at their fair values in purchase accounting.

5. PROVISION FOR INCOME TAXES: The change in income taxes reflects current and deferred taxes computed at the statutory federal rate for 1994 of 35%, plus 3% to reflect the estimated net state tax rate.

APPENDIX D

SOURCES AND APPLICATION OF FUNDS STATEMENTS

EXHIBIT 18

SECTION 1180.9(c)
PRO FORMA SOURCES AND APPLICATION OF FUNDS
UP/SPR CONSOLIDATED BASE YEAR
($000)

	UP BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UP/SPR BASE YEAR
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
NET INCOME	$766,996	$73,855	$0	$840,851
LOSS (GAIN) ON SALE OR DISPOSAL OF PROPERTY	(67,688)	-	-	(67,688)
DEPRECIATION AND AMORTIZATION EXPENSE	612,981	139,800	-	752,781
NET INCREASE (DECREASE) IN DEFERRED INCOME TAXES	179,207	46,588	-	225,795
NET CHANGE IN WORKING CAPITAL	(127,585)	(54,000)	-	(181,585)
OTHER - NET	(25,866)	285,057	-	259,191
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,338,045	491,300	-	1,829,345
CASH FLOWS FROM INVESTING ACTIVITIES				
CASH USED FOR CAPITAL EXPENDITURES	(927,919)	(300,500)	-	(1,228,419)
PROCEEDS FROM SALE OF PROPERTY	124,735	-	-	124,735
NET DECREASE (INCREASE) IN INVESTMENTS AND ADVANCES	(96,008)	(95,000)	-	(191,008)
NET DECREASE (INCREASE) IN SINKING FUNDS	(1,509)	-	-	(1,509)
OTHER - NET	1,400	(11,800)	-	(10,400)
NET CASH FROM INVESTING ACTIVITIES	(899,301)	(407,300)	-	(1,306,601)
CASH FLOWS FROM FINANCING ACTIVITIES				
PROCEEDS FROM ISSUANCE OF LONG TERM DEBT	144,158	55,600	-	199,758
PRINCIPLE PAYMENTS ON LONG TERM DEBT	(164,480)	(59,500)	-	(223,980)
CASH DIVIDENDS PAID	(357,000)	-	-	(357,000)
ADVANCES FROM (TO) PARENT	73,522	-	-	73,522
OTHER - NET	(111,788)	-	-	(111,788)
NET CASH FROM FINANCING ACTIVITIES	(415,588)	(3,900)	-	(419,488)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$23,156	$80,100	$0	$103,256

EXHIBIT 18

SECTION 1180.9(c)
PRO FORMA SOURCES AND APPLICATION OF FUNDS
UP/SPR
($000)

	UP/SPR BASE YEAR (1994)	UP/SPR YEAR ONE	UP/SPR YEAR TWO	UP/SPR YEAR THREE	UP/SPR YEAR FOUR	UP/SPR YEAR FIVE	UP/SPR NORMAL YEAR
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
NET INCOME	$840,851	$800,669	$920,413	$991,057	$1,014,134	$1,034,094	$1,050,624
LOSS (GAIN) ON SALE OR DISPOSAL OF PROPERTY	(67,688)	(97,623)	(78,328)	(68,851)	(68,851)	(68,851)	(67,688)
DEPRECIATION AND AMORTIZATION EXPENSE	752,781	840,368	866,999	880,646	887,751	889,291	887,586
NET INCREASE (DECREASE) IN DEFERRED INCOME TAXES	225,795	219,370	264,390	255,059	246,525	231,240	218,054
NET CHANGE IN WORKING CAPITAL	(181,585)	(181,585)	(181,585)	(181,585)	(181,585)	(181,585)	(181,585)
OTHER - NET	259,191	185,370	186,376	244,453	251,510	252,373	252,373
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,829,345	1,766,569	1,978,265	2,120,779	2,149,484	2,156,562	2,159,364
CASH FLOWS FROM INVESTING ACTIVITIES							
CASH USED FOR CAPITAL EXPENDITURES	(1,228,419)	(1,794,864)	(1,608,271)	(1,459,049)	(1,311,165)	(1,175,524)	(1,180,969)
PROCEEDS FROM SALE OF PROPERTY	124,735	292,573	176,114	194,196	129,196	129,196	124,735
NET DECREASE (INCREASE) IN INVESTMENTS AND ADVANCES	(191,008)	(191,008)	(191,008)	(191,008)	(191,008)	(191,008)	(191,008)
NET DECREASE (INCREASE) IN SINKING FUNDS	(1,509)	(1,509)	(1,509)	(1,509)	(1,509)	(1,509)	(1,509)
OTHER - NET	(10,400)	(10,400)	(10,400)	(10,400)	(10,400)	(10,400)	(10,400)
NET CASH FROM INVESTING ACTIVITIES	(1,306,601)	(1,705,208)	(1,635,074)	(1,467,770)	(1,384,886)	(1,249,245)	(1,259,151)
CASH FLOWS FROM FINANCING ACTIVITIES							
PROCEEDS FROM ISSUANCE OF LONG TERM DEBT	199,758	199,758	199,758	199,758	199,758	199,758	199,758
PRINCIPLE PAYMENTS ON LONG TERM DEBT	(223,980)	(223,980)	(223,980)	(223,980)	(223,980)	(223,980)	(223,980)
CASH DIVIDENDS PAID	(357,000)	(357,000)	(388,825)	(417,082)	(426,313)	(434,297)	(440,909)
ADVANCES FROM (TO) PARENT	73,522	534,905	284,900	3,339	(99,019)	(233,754)	(220,038)
OTHER NET	(111,788)	(111,788)	(111,788)	(111,788)	(111,788)	(111,788)	(111,788)
NET CASH FROM FINANCING ACTIVITIES	(419,488)	41,895	(239,935)	(549,753)	(661,342)	(804,061)	(796,957)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$103,256	$103,256	$103,256	$103,256	$103,256	$103,256	$103,256

NOTES TO PRO FORMA
SOURCES AND APPLICATIONS OF FUNDS

UP/SPR

BASE YEAR

1. UP BASE YEAR (1994): Represents the combination of UP's statement of cash flows as reported in UP's 1994 R-1 Annual Report, the 1994 statement of cash flows of UP Rail, Inc., and CNWT's statement of cash flows as reported in CNWT's 1994 10-K Annual Report. Adjustments were made to reflect the cash flow impact of: (1) the purchase accounting adjustments associated with the acquisition of the remaining outstanding shares of CNWT not already owned by UP Rail, Inc. at the date of acquisition of CNWT; (2) the interest expense on the debt issued to purchase such CNWT shares; (3) the net benefits associated with the UP/CNW merger; (4) the net losses associated with the BN/Santa Fe merger; (5) the elimination of equity income recognized by UP Rail, Inc. on its investment in CNWT; and (6) dividends on the incremental shares of stock issued to acquire SPR.

2. SPR YEAR (1994): Represents SPR's statement of cash flows as reported in SPR's 1994 10-K Annual Report. Adjustments were made to: (1) record the net losses associated with the UP/CNW merger; (2) record the net losses associated with the BN/Santa Fe merger; (3) eliminate gains and proceeds from sale of property and proceeds from stock offering, which gains and proceeds were used to retire long term debt with the balance being included in other - net operating activities, thus creating positive cash flow from operating activities.

EXHIBIT 18

SECTION 1180.9(c)
PRO FORMA SOURCES AND APPLICATION OF FUNDS
UPC/SPR CONSOLIDATED BASE YEAR
($000)

	UPC BASE YEAR	SPR BASE YEAR	BASE YEAR ADJUSTMENTS	UPC/SPR BASE YEAR
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
NET INCOME	$670,301	$73,855	$0	$744,156
LOSS (GAIN) ON SALE OR DISPOSAL OF PROPERTY	(62,000)	-	-	(62,000)
DEPRECIATION AND AMORTIZATION EXPENSE	691,501	139,800	-	831,301
NET INCREASE (DECREASE) IN DEFERRED INCOME TAXES	207,317	46,588	-	253,905
NET CHANGE IN WORKING CAPITAL	91,266	(54,000)	-	37,266
OTHER - NET	(241,155)	285,057	-	43,902
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,357,230	491,300	-	1,848,530
CASH FLOWS FROM INVESTING ACTIVITIES				
CASH USED FOR CAPITAL EXPENDITURES	(1,017,940)	(300,500)	-	(1,318,440)
PROCEEDS FROM SALE OF PROPERTY	44,512	-	-	44,512
NET DECREASE (INCREASE) IN INVESTMENTS AND ADVANCES	-	(95,000)	-	(95,000)
OTHER - NET	1,400	(11,800)	-	(10,400)
NET CASH FROM INVESTING ACTIVITIES	(972,028)	(407,300)	-	(1,379,328)
CASH FLOWS FROM FINANCING ACTIVITIES				
PROCEEDS FROM ISSUANCE OF LONG TERM DEBT	445,414	55,600	-	501,014
PRINCIPLE PAYMENTS ON LONG TERM DEBT	(392,916)	(59,500)	-	(452,416)
CASH DIVIDENDS PAID	(397,000)	-	-	(397,000)
OTHER - NET	1,800	-	-	1,800
NET CASH FROM FINANCING ACTIVITIES	(342,702)	(3,900)	-	(346,602)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$42,500	$80,100	$0	$122,600

EXHIBIT 18

SECTION 1180.9(c)
PRO FORMA SOURCES AND APPLICATION OF FUNDS
UPC/SPR
($000)

	UPC/SPR BASE YEAR (1994)	UPC/SPR YEAR ONE	UPC/SPR YEAR TWO	UPC/SPR YEAR THREE	UPC/SPR YEAR FOUR	UPC/SPR YEAR FIVE	UPC/SPR NORMAL YEAR
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
NET INCOME	$744,156	$703,974	$823,718	$896,039	$922,370	$946,243	$967,313
LOSS (GAIN) ON SALE OR DISPOSAL OF PROPERTY	(62,000)	(91,935)	(72,640)	(63,163)	(63,163)	(63,163)	(62,000)
DEPRECIATION AND AMORTIZATION EXPENSE	831,301	918,888	945,519	959,166	966,271	967,811	966,106
NET INCREASE (DECREASE) IN DEFERRED INCOME TAXES	253,905	247,480	292,500	283,169	274,635	259,350	246,164
NET CHANGE IN WORKING CAPITAL	37,266	37,266	37,266	37,266	37,266	37,266	37,266
OTHER - NET	43,902	(29,919)	(28,913)	29,164	36,221	37,084	37,084
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,848,530	1,785,754	1,997,450	2,141,641	2,173,600	2,184,591	2,191,933
CASH FLOWS FROM INVESTING ACTIVITIES							
CASH USED FOR CAPITAL EXPENDITURES	(1,318,440)	(1,884,885)	(1,698,292)	(1,549,070)	(1,401,186)	(1,265,545)	(1,270,990)
PROCEEDS FROM SALE OF PROPERTY	44,512	212,350	95,891	113,973	48,973	48,973	44,512
NET DECREASE (INCREASE) IN INVESTMENTS AND ADVANCES	(95,000)	(95,000)	(95,000)	(95,000)	(95,000)	(95,000)	(95,000)
OTHER - NET	(10,400)	(10,400)	(10,400)	(10,400)	(10,400)	(10,400)	(10,400)
NET CASH FROM INVESTING ACTIVITIES	(1,379,328)	(1,777,935)	(1,707,801)	(1,540,497)	(1,457,613)	(1,321,972)	(1,331,878)
CASH FLOWS FROM FINANCING ACTIVITIES							
PROCEEDS FROM ISSUANCE OF LONG TERM DEBT	501,014	962,397	680,567	501,014	501,014	501,014	501,014
PRINCIPLE PAYMENTS ON LONG TERM DEBT	(452,416)	(452,416)	(452,416)	(584,358)	(699,201)	(845,833)	(843,269)
CASH DIVIDENDS PAID	(397,000)	(397,000)	(397,000)	(397,000)	(397,000)	(397,000)	(397,000)
OTHER - NET	1,800	1,800	1,800	1,800	1,800	1,800	1,800
NET CASH FROM FINANCING ACTIVITIES	(346,602)	114,781	(167,049)	(478,544)	(593,387)	(740,019)	(737,455)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$122,600	$122,600	$122,600	$122,600	$122,600	$122,600	$122,600

NOTES TO PRO FORMA
SOURCES AND APPLICATIONS OF FUNDS

UPC/SPR

BASE YEAR

1. UPC BASE YEAR (1994): Represents the combination of UPC's statement of cash flows as reported in UPC's 1994 10-K Annual Report and the CNWT's statement of cash flows as reported in CNWT's 1994 10-K Annual Report. Adjustments were made to reflect the cash flow impact of: (1) the purchase accounting adjustments associated with the acquisition of the remaining outstanding shares of CNWT not already owned by UP Rail, Inc. at the date of acquisition of CNWT; (2) the interest expense on the debt issued to purchase such CNWT shares; (3) the net benefits associated with the UP/CNW merger; (4) the net losses associated with the BN/Santa Fe merger; (5) the elimination of equity income recognized by UP Rail, Inc. on its investment in CNWT; (6) dividends on the incremental shares of stock issued to acquire SPR; (7) the spin-off of Union Pacific Resources; and (8) the elimination of the loss from discontinued operations associated with UPC's waste management business segment which was sold at year-end 1994.

2. SPR YEAR (1994): Represents SPR's statement of cash flows as reported in SPR's 1994 10-K Annual Report. Adjustments were made to: (1) record the net losses associated with the UP/CNW merger; (2) record the net losses associated with the BN/Santa Fe merger; (3) eliminate gains and proceeds from sale of property and proceeds from stock offering, which gains and proceeds were used to retire long term debt with the balance being included in other - net operating activities, thus creating positive cash flow from operating activities.

APPENDIX E

PROPERTY ENCUMBRANCE

EXHIBIT 19

PROPERTY ENCUMBRANCE
as of October 31, 1995

Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SPT	Capitalized Lease 94-1	Citicorp Railmark	Citicorp Railmark, Inc. 450 Mamaroneck Avenue, 3rd Floor Harrison NY 10528 Attn: Rail Operations Department	91 Tri-Level Racks	05-01-1980	07-31-1999	13.12%	488,885
SPT	Capitalized Lease 93-1	Shawmut Bank	Shawmut Bank Connecticut, N.A. 777 Main Street Hartford, CT 06115 Attn: Corporate Trust Administration	100 Double-stack Cars	01-15-1994	07-02-2012	7.39%	16,257,732
SPT	Capitalized Lease 94-2	Shawmut Bank	Shawmut Bank Connecticut, N.A. 777 Main Street Hartford, CT 06115 Attn: Corporate Trust Administration	50 Loco GP60 & SD70m	12-15-1993	07-02-2015	7.52%	50,303,051
SPT	Capitalized Lease 94-A	Shawmut Bank	Shawmut Bank Connecticut, N.A. 777 Main Street Hartford, CT 06115 Attn: Corporate Trust Administration	115 Locos SD40m-2	01-15-1994	10-02-2010	8.66%	65,600,000

Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SPT	Capitalized Lease	State Street Bank	State Street Bank and Trust Company Corporate Trust Department P.O. Box 778 Boston, MA 02117 Attn: Administration Support	600 Hoppers & 50 GE Dash 9 Locos	09-29-1994	H=07-02-2017 L=07-02-2015	9.04% 9.13%	21,756,862 52,158,395
SPT	Capitalized Lease	State Street Bank	State Street Bank and Trust Company Corporate Trust Department P.O. Box 778 Boston, MA 02117 Attn: Administration Support	920 Hoppers	04-25-1995	03-17-2018	8.29%	38,617,901
SPT	Capitalized Lease	State Street Bank	State Street Bank and Trust Company Corporate Trust Department P.O. Box 778 Boston, MA 02117 Attn: Administration Support	50 GE Dash 9 Locos	09-29-1994	07-02-2017	9.13%	52,774,085
SPT	Capitalized Lease	State Street Bank	State Street Bank and Trust Company Corporate Trust Department P.O. Box 778 Boston, MA 02117 Attn: Administration Support	200 Locos	04-25-1995	07-02-2017	8.41%	262,280,581

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Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiration Date	Rate	Amount Outstanding Oct. 31, 1995
SPT	Capitalized Lease	Shawmut Bank	Shawmut Bank Connecticut, N.A. 777 Main Street Hartford, CT 06115 Attn: Corporate Trust Administration	17 MK Locos	04-28-1995	10-02-2010	8.27%	10,064,318
SPT	Capitalized Lease	State Street Bank	State Street Bank and Trust Company Corporate Trust Department P.O. Box 778 Boston, MA 02117 Attn: Administration Support	50 GE Locos	04-25-1995	04-30-2017	7.58%	66,531,545
SPT	Capitalized Lease		Burlington Northern RR 777 Main Street, Suite 3200 Fort Worth, TX 76102 Attn: Paul Wegandt, Asst. VP	1,036 Freight Cars	05-28-1995	05-28-2005	10.13%	25,220,674
SPT	Capitalized Lease GB92	Greenbrier Railcar Co.	The Greenbrier Companies One Centerpointe Drive, Suite 200 Lake Oswego, OR 97035	1,725 miscellaneous freight cars	03-14-1991 Schedules 12/92-12/93	Schedules 11/2002-11/2003	12.75% 13.66%	41,614,228

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Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SPT	Capitalized Lease GB93	Greenbrier Railcar Co.	The Greenbrier Companies One Centerpointe Drive, Suite 200 Lake Oswego, OR 97035	704 miscellaneous freight cars	03-14-1991 Schedules 4/93-3/94	Schedules 3/2003-2/2004	14.00%	15,997,109
SPT	Capitalized Lease GB94	Greenbrier Railcar Co.	The Greenbrier Companies One Centerpointe Drive, Suite 200 Lake Oswego, OR 97035	1,584 miscellaneous freight cars	03-14-1991** Schedules 1/94-12/94**	Schedules 3/2003-2/2004**	10.00%**	38,837,927*
SPT	Capitalized Lease GB95	Greenbrier Railcar Co.	The Greenbrier Companies One Centerpointe Drive, Suite 200 Lake Oswego, OR 97035	737 miscellaneous freight cars	03-14-1991** Schedules 1/95-9/95**	Schedules 12/2004-8/2005**	10.00%**	18,692,234* *based on estimated values
DRGW	Capitalized Lease	State Street Bank	State Street Bank and Trust Company Corporate Trust Department P.O. Box 778 Boston, MA 02117 Attn: Administration Support	295 Gondolas	12-15-1987	12-15-2005	6.98%	5,413,120
DRGW	Capitalized Lease	1st Security Utah	Ms. Laurel R. Bailey Corporate Trust Administrator First Security Bank of Utah P.O. Box 30007 Salt Lake City, UT 84130	232 Hoppers	10-15-1977	01-15-1996	8.25%	279,687

Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
DRGW	Capitalized Lease	G E Railcar	G. E. Capital Railcar Services Corporate Office 33 West Monroe Street Chicago, IL 60603 Attn: Dan Schwere	50 BiLevel Racks	11-10-1986	09-26-2001 1st IER	9.03%	761,472
DRGW	Capitalized Lease	MetLife Capital	MetLife Capital, Limited Partnership C-97550 Bellevue, WA 98009 Attn: Ms. Charlene Minis, Contract Admin.	100 TriLevel Racks	04-16-1987	06-15-1997	6.41%	833,583
158 DRGW	Capitalized Lease	Norwest Bank	Norwest Bank Denver Leasing Department Mail #8604 1740 Broadway Denver, CO 80274-8604	53 Modular Housing	01-21-1981	05-30-1996	7.25%	122,469
DRGW	Capitalized Lease	Atel Financial	ATEL Financial Corporation 235 Pine Street, 6th Floor San Francisco, CA 94104 Attn: Ms. Lynn Li	349 Bi & TriLevel Racks	07-31-1987	12-30-1997	6.65%	3,371,890

Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SPT	Equipment Trust 92-1	Bank of New York	Mr. Robert F. McIntyre Assistant Vice President Corporate Trust Department Bank of New York 101 Barclay Street - 21st Floor New York, NY 10286	55 EMD GP-60 Locomotives	03-15-1992	04-01-2007	10.19%	56,225,580
SPT	Conditional Sale-6/1/87 Series B	Mellon Bank	Ms. Cathy Weidecke Mellon Bank Corporate Trust Group - 199-5000 701 Market St. Philadelphia PA 19106	36 remanufactured SD-45 3600 HP Locos	06-01-1987	06-01-1997	9.25%	14,400,000
SPT	Conditional Sale-6/1/87 Ser A	Mellon Bank	Ms. Cathy Weidecke Mellon Bank Corporate Trust Group - 199-5000 701 Market St. Philadelphia PA 19106	40 GE 3900 HP Locos. and 20 GM 3800 HP Locos	06-01-1987	06-01-2002	9.35%	30,081,333

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Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SPT	Conditional Sale-3/1/91	Bank of New York	Mr. Robert F. McIntyre Assistant Vice President Corporate Trust Department Bank of New York 101 Barclay Street - 21st Floor New York, NY 10286	45 Remanufactured GP 40m-2 3000 HP Locos	03-01-1991	03-01-2003	10.15%	24,363,636
SPT	Debenture - Ser B	Bankers Trust Co.	Ms. Dana Burns, AVP Bankers Trust Co. Corp. Trust & Agency Group Four Albany Street New York, NY 10006	Direct first lien on the old Central Pacific Lines going from Oregon to Fresno and San Francisco to Ogden, UT	12-01-1976	12-01-2001	8.20%	35,000,000
SPT	ICTF 89	First Trust of New York	Ms. Tami Felicetti, Trust Admin. Corp. Trust Administration First Trust New York 100 Wall Street, Suite 1600 New York, NY 10005	Intermodal Container Facility, Ports of Los Angeles and Long Beach	04-15-1989	11-01-2014	7.6134%	48,345,000

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Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SSW	Eqpt. Trust Ser-1 - 5/1/90	Bank of New York	Mr. Robert F. McIntyre Assistant Vice President Corporate Trust Department Bank of New York 101 Barclay Street - 21st Floor New York, NY 10286	50 GM GP60 3800 HP Locos	05-01-1990	05-15-2005	10.10%	46,661,962
SSW	Conditional Sale - 1/15/89	Bank of New York	Mr. Robert F. McIntyre Assistant Vice President Corporate Trust Department Bank of New York 101 Barclay Street - 21st Floor New York, NY 10286	24 Remanufactured SD 45-2 3600 HP Locos	01-15-1989	01-15-1999	10.03%	877,714,287
SSW	Conditional Sale - 7/1/88	Bank of New York	Mr. Robert F. McIntyre Assistant Vice President Corporate Trust Department Bank of New York 101 Barclay Street - 21st Floor New York, NY 10286	35 GE B40-8 4000 HP locos and 15 GM GP-60 3800 HP locos	06-01-1988	07-01-2003	10.04%	333,076,923

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Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SSW	Conditional Sale - 4/15/89	Bank of New York	Mr. Robert F. McIntyre Assistant Vice President Corporate Trust Department Bank of New York 101 Barclay Street - 21st Floor New York, NY 10286	30 EMD GP-60 3800 HP locos and 20 GE B40-8 4000 HP locos	04-15-1989	05-15-2004	10.30%	54,855,000
SSW	Conditional Sale - 9/1/90	Bank of New York	Mr. Robert F. McIntyre Assistant Vice President Corporate Trust Department Bank of New York 101 Barclay Street - 21st Floor New York, NY 10286	20 remanufactured GM GP40-M 3000 HP locos	09-01-1990	09-15-2005	10.10%	983,333,335
SSW	FRA Series A	Federal Railroad Administration	Mr. James T. McQueen Associate Administrator for Federal Assistance Department of Transportation Federal Railroad Administration 400 7th Street, SW - Room 541 Washington, DC 20590	Rail line rehabilitation (Tucumcari Line from Tucumcari to Topeka, KS)	09-29-1980	05-25-2014	2.03%	41,241,831

Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SSW	FRA Series B	Federal Railroad Administration	Mr. James T. McQueen Associate Administrator for Federal Assistance Department of Transportation Federal Railroad Administration 400 7th Street, SW - Room 541 Washington, DC 20590	Rail lines rehabilitation (Armourdale Yard, Kansas City)	11-24-1982	08-08-2005	4.09%	1,627,952
SPCSL	Promissory Note -IDFA	LaSalle Nat'l Bank	Mr. Jerry Cosentino Treasurer of the State of Illinois 219 State House Springfield, IL 62706	SPCSL properties	11-08-1989	11-08-1999	6.00%	10,000,000
SPCSL	FRA	Federal Railroad Administration	Mr. James T. McQueen Associate Administrator for Federal Assistance Department of Transportation Federal Railroad Administration 400 7th Street, SW - Room 541 Washington, DC 20590	Track Structures and SPCSL properties	07-20-1990	06-30-2005	4.00%	3,327,440

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Co.	Description of Obligation	Creditor/Trustee	Address of Creditor/Trustee	Description	Origin Date	Expiraton Date	Rate	Amount Outstanding Oct. 31, 1995
SPCSL	FRA 2	Federal Railroad Administration	Mr. James T. McQueen Associate Administrator for Federal Assistance Department of Transportation Federal Railroad Administration 400 7th Street, SW - Room 541 Washington, DC 20590	Track Structures and SPCSL properties	06-28-1991	06-30-2006	4.00%	3,499,954
SPCSL	FRA 3	Federal Railroad Administration	Mr. James T. McQueen Associate Administrator for Federal Assistance Department of Transportation Federal Railroad Administration 400 7th Street, SW - Room 541 Washington, DC 20590	Track Structures and SPCSL properties	06-26-1992	06-30-2007	4.00%	3,166,322
SPCSL	IDOT	State of Illinois	Mr. Merrill L. Travis Chief, Bureau of Railroads Illinois Dept. of Transportation 2300 S. Dirksen Parkway Springfield, IL 62764	SPCSL Properties	11-22-1989	12-31-2018	3.00%	25,500,000

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VERIFIED STATEMENTS OF APPLICANTS'

OFFICERS IN SUPPORT OF APPLICATION

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VERIFIED STATEMENT

OF

RICHARD K. DAVIDSON

My name is Richard K. Davidson. I am the President and Chief Operating Officer of UPC and the Chairman of the Board of UP. I began my railroad career as a brakeman/conductor with MPRR in 1960. Thereafter, I rose through the ranks in the MPRR Operating Department, becoming Vice President-Operations in 1976. In 1986, four years after the UP/MP/WP consolidation, I was promoted to Vice President-Operation of UP, and in 1989 I became Executive Vice President-Operation of UP. In 1991 I became Chairman and Chief Executive Officer of UP and in 1994 I assumed additional responsibilities as President of UPC. Earlier this month, I became Chief Operating Officer of UPC and relinquished the position of Chief Executive Officer of UP.

The merger of UP and SP will greatly strengthen rail competition in the West and produce tremendous benefits for shippers. It is clearly in the public interest, and should be expeditiously approved.

Time is of the essence because BN/Santa Fe, by its merger, has achieved a level of competitiveness that neither UP nor SP can match. Without the UP/SP merger, BN/Santa Fe will open a wider and wider lead over UP and SP, and our customers will be denied the routing and efficiency benefits that BN/Santa Fe can offer its customers. SP in particular, which has been struggling for years with service problems and capital constraints that the BN/Santa Fe merger will only exacerbate, will fall farther and farther behind in the competitive race, as Mr. Gray and Mr. Yarberry explain in their statements. With the UP/SP merger, the West will become the scene of an unprecedented level of competition between two comprehensive, efficient, service-responsive rail systems. UP and SP are a natural fit, with lines in Utah and Texas that were built a century ago to be operated together and the merger offers dramatic synergies that can be achieved by combining their systems throughout the West.

In my tenure at MPRR and then UP, I have seen railroading revolutionized. The railroad industry where I went to work in 1960 was mired in regulation and living in the past. At one time railroads had carried the majority of surface freight, and while that had long since changed, the attitudes from that earlier era persisted. Railroad people were used to running the railroad on a take-it-or-leave-it basis. If the customer happened to find the service provided to be acceptable, that was fine; if not, that was fine too. These attitudes were reinforced by regulation, which tied the railroads' hands and prevented them from competing on rates, creating new services or entering into contracts tailored to shipper requirements.

But in the mid-fifties with the development of the National Highway System, the world began to change. More and more rail traffic was lost to trucks, which had greater freedom to be customer-responsive and could operate on a nationwide highway network that had been constructed at public expense. Railroad finances were steadily deteriorating. By the time I became Vice President-Operations of MPRR in 1976, Penn Central and half a dozen other Northeastern roads had gone bankrupt, the government had formed Conrail, and a consensus had finally begun to form that much of rail regulation had to be scrapped. Four years later, the Staggers Act totally revamped the regulatory regime.

The Staggers Act freed railroads from the straitjacket of regulation, and forced railroad managers to recognize that the marketplace would dictate what a railroad had to be. We learned to listen -- to let the customers explain their business requirements and how they could best be met -- and to try to stay abreast of change rather than be overwhelmed by it. We learned that we had to identify and overcome the obstacles to meeting customer needs. That simple statement covers a myriad of steps that UP has taken during the past 15 years -- from establishing the first centralized, automated dispatching system, to opening the first national customer service center, to investing in innovative new equipment and developing new car supply concepts that better match available cars to traffic, to the first focused quality effort in the railroad industry, to the endless struggle to improve transit times and reliability, to improved car tracing and more accurate billing.

Even with all those efforts and more, however, UP will not be able to match the capabilities of the new BN/Santa Fe system -- will not be able to satisfy customer needs as BN/Santa Fe can -- in any way other than through a merger with SP. We cannot build a line that fills the gaps in our system between Texas and California or between Los Angeles and Oakland or wish away the circuity of our lines between the California ports and the Mississippi gateways any more than SP can build a line extending its reach from Portland to Seattle or from Chicago into the Upper Midwest. BN/Santa Fe covers all those markets, and UP and SP, short of merger, inescapably do not. Nor is there any way other than the merger for us to achieve the dramatic capacity enhancements, service improvements and cost reductions that the merger makes possible -- benefits that BN/Santa Fe has already achieved by its merger.

Mergers have played an essential part in the effort of the railroads to become more customer-responsive and competitive. Unlike trucking companies, which can operate directly from any origin to any destination on a comprehensive highway network, railroads are captives of their route structure. Only through merger can railroads bring their geographic reach, capacity and network efficiency into conformity with the needs and demands of their customers.

Since 1980, the Commission has approved a series of railroad consolidations that have brought the rail industry out of the 19th Century and given it a fighting chance to meet the economic challenges of the 21st. As Professor La Londe discusses in his verified statement, with every day that passes, customers become more demanding in their logistics requirements. They need their goods moved fast, reliably, and at low cost. They need a carrier that is not capacity-constrained, that can reach all the major markets in which they wish to sell their outputs and buy their inputs, and that can provide them the best possible customer service using the latest available technology. They are themselves under constant pressure, in an ever more competitive national and world economy, to be more efficient and productive, and they need more efficient and productive transportation providers. The merger of BN and Santa Fe created a railroad that can meet these challenges, and now what is needed is a second such railroad, to be a worthy competitor to the first.

The application describes the constellation of service improvements that UP and SP will be able to provide as a merged system. We will have shorter routes. We will have faster and more reliable service. Capacity bottlenecks will be eliminated, and operations will become more efficient in every major corridor in the West. For the first time ever, there will be a real alternative to BN/Santa Fe premium intermodal service between California and Chicago. We will gain new single-line service connecting hundreds of UP points with hundreds of SP points. Seattle and Los Angeles will be linked by direct single-line rail service for the first time in history, and trucks and barges will face new competition from a rail mode that should -- were it not for the present obstacles of interchanges and the differing interests of separate companies -- be the most efficient mode of

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carriage for large volumes of freight in this rapidly growing market. We will build a new "Inland Empire" intermodal terminal in the eastern Los Angeles Basin to compete with BN/Santa Fe for premium intermodal traffic. We will institute the first-ever California-Laredo intermodal service, the first-ever Pacific Northwest-Texas-New Orleans through intermodal service, improved Twin Cities-Texas intermodal service, new dedicated automobile trains, and many new through trains and blocks with Eastern carriers that bypass congested terminals. We will upgrade UP's "OKT" line in Kansas and Oklahoma so that it can be used in conjunction with SP line segments to run heavy coal and grain trains around the congested Kansas City terminal. Equipment supply will be significantly improved. The list goes on and on.

The bottom line is that we will offer customers a comprehensive, efficient rail network that is the equal of BN/Santa Fe. Competition will be greatly enhanced, as discussed in detail in the verified statements of Mr. Peterson, Mr. Barber, Professor Willig, Mr. Sharp and Mr. Spero. And as a result, shippers will hugely benefit.

The Commission is rightly concerned not only about the competitive and other benefits of mergers, but about ensuring that mergers do not cause any harmful reductions in competition. When we concluded last August that the only course for UP was a merger with SP that would create a world-class railroad to compete against BN/Santa Fe, we made the commitment from day one that we would not allow a single shipper to lose a choice between two railroads. We announced that we would negotiate conditions that would introduce a second strong railroad competitor at every location where UP and SP provided the only rail service.

In talking with customers, I heard that they wanted a financially strong carrier with broad geographic coverage -- not a combination of regional competitors. And while BN/Santa Fe might not have been my first choice at the outset, it became increasingly clear that only BN/Santa Fe would satisfy the concerns of our customers. On September 25, we kept our commitment to preserve competition and signed an agreement with BN/Santa Fe -- an agreement that will not only preserve competition, but greatly enhance it.

Under our agreement with BN/Santa Fe, as more fully described by Mr. Rebensdorf and Mr. Peterson, every shipper that has service only from UP and SP today will have much stronger competition, as they will be able to reach <u>both</u> all UP and SP points <u>and</u> all BN/Santa Fe points on a single-line basis. Moreover, the agreement adds <u>new</u> competition where none exists now. Under the agreement, there will be a second competitive single-line rail route -- in addition to the one that the merger itself will create -- from Western Canada all the way down the West Coast to Arizona, Texas and the gateways to Western Mexico. Similarly, BN/Santa Fe will gain access to New Orleans -- the only midcontinent gateway it does not reach -- and for the first time ever there will be two direct single-line rail alternatives between New Orleans and Los Angeles. And BN/Santa Fe will have a competitive route in the Central Corridor and a direct route between Houston and Memphis that will also significantly improve its routes in the Houston-St. Louis-Chicago corridor. We are asking, as we agreed with BN/Santa Fe that we would do, that the Commission impose this agreement as a condition to approval of the merger.

We believe that this application presents the most compelling showing ever presented in support of a rail merger. Support statements have been provided by more than 1,000 customers -- from the smallest SP-served lumber business in Oregon that will save hundreds of miles and many days of transit time for its shipments to the Midwest, to the largest intermodal companies that will gain a real choice for their traffic, including UP's largest shipper (American President Companies) and SP's (CSX Intermodal). Hundreds of public officials have also submitted support statements.

Annual public benefits will be in excess of $750 million, from operating efficiencies and cost savings (over $580 million per year, as explained in the statement of Messrs. Draper and Salzman), shipper logistics savings (very conservatively estimated at $90 million per year, as explained in the verified statement of Mr. Roberts), and net traffic gains (about $76 million, after allowing for the substantial losses of traffic to BN/Santa Fe under the settlement agreement, as explained in Mr. Peterson's statement). The merged system will spend more than $1 billion in capital, over and above UP's and SP's base 1994 capital budgets, to upgrade lines and add new facilities so that the remarkable synergies of this combination can be fully realized. Scores of new and improved train services will be initiated, as described in the Operating Plan and the verified statement of Messrs. King and Ongerth. Directional operation of UP and SP lines in Texas and Arkansas, and route and terminal flexibility in other corridors all across the West, will greatly improve service. Large volumes of traffic will be diverted from trucks to the merged system's much-improved intermodal services, as discussed by Mr. Ainsworth and Mr. Roberts in their verified statements. Trade with our neighbors in Canada and Mexico will be enhanced.

The purpose of this merger is to increase, not diminish, our capacity, and we project abandoning only some 588 miles of lines where there is little or no local traffic and overhead business can be rerouted more efficiently over other lines of the merged system.

This merger will complete the transformation of the Western rail system that began a decade and a half ago. The West will be served by two intensely competitive rail systems that have the efficient routes and wide network reach that are essential if the rail mode is to meet customer needs. I am proud to have been part of the process that led to this historic merger agreement, and I look forward to its speedy approval.

VERIFICATION

COMMONWEALTH OF)
PENNSYLVANIA)
) SS.
COUNTY OF LEHIGH)

I, Richard K. Davidson, being duly sworn, state that I have read the foregoing statement, that I know its contents and that those contents are true as stated.

Richard K. Davidson
RICHARD K. DAVIDSON

Subscribed and sworn to before me this 20 day of November, 1995.

Valerie A. Madea
NOTARY PUBLIC

My Commission Expires: 10/10/98

Notarial Seal
Valerie A. Madea, Notary Public
Allen Twp., Northampton County
My Commission Expires Oct. 10, 1998
Member, Pennsylvania Association of Notaries

VERIFIED STATEMENT

OF

PHILIP F. ANSCHUTZ

My name is Philip F. Anschutz. I am Chairman of the Board of SPR. I served as President and Chief Executive Officer of SPR until July, 1993. I am also Chairman of the Board and President of The Anschutz Corporation, which currently holds approximately 25.2% of SPR's outstanding common stock. I graduated from the University of Kansas in 1961 with a degree in business.

I am submitting this statement in support of the application for Commission approval of Union Pacific control of SP. If approved, the UP/SP combination would be accomplished through the proposed merger of SPR and UPRR, a wholly owned subsidiary of UPC. After the merger, UP and SP will be operated as a single system.

In my testimony I explain why the proposed UP/SP combination is in the public interest, and in the interests of the shareholders of UPC and SPR. My testimony also discusses the fairness of the merger consideration, mainly from the perspective of SPR's shareholders. I respectfully urge the Commission to approve the control application as soon as possible. The merger benefits are very substantial. Their realization should commence as soon as possible and not be diminished by undue delay.

Customers will benefit greatly from the UP/SP combination's expanded rail system and broader geographic coverage, from new and more efficient single-line service, and from strenuous head-to-head competition with BN/Santa Fe throughout the West. The UP/SP combination also will yield substantial efficiency gains and operating cost reductions.

Rail investments in this lower-cost environment will entail less risk and will yield higher returns from new capacity and from improvements in rail operations. The financially stronger, more efficient rail system created by the UP/SP combination thus will be able to justify and fund quickly the kinds of investments that a stand-alone SP is unable to make at the present time. These investments, together with the ready availability of UP's technologically superior operating and information systems and the improved utilization of existing routes, facilities and equipment, will allow service quality on SP lines to be increased rapidly to levels that correspond better to our existing and our prospective customers' transportation needs. I am particularly pleased by this prospect, as are a large number of SP's customers.

1. <u>SP Has Strived to Become a Stronger Competitor</u>

a. <u>SP's Franchise Is Good, But Limited in Some Important Areas</u>. SP operates over approximately 14,500 miles of first main track and operates in 15 states. Our five core routes are: 1) the <u>I-5 Corridor</u>, extending along the Pacific coast from Portland, Oregon to the Los Angeles Basin; 2) the <u>Central</u>

Corridor, starting in Oakland, and traversing the Rockies on the way to Chicago; 3) the Sunset Route, beginning in Los Angeles and moving through Tucson, El Paso, San Antonio and Houston to New Orleans; 4) the Tucumcari Line, running from El Paso via Tucumcari to Kansas City and continuing from there by virtue of BN trackage rights to Chicago; and 5) the Gulf to Midwest Corridor, ranging from the Texas Gulf Coast to St. Louis and then on to Chicago.

SP serves most Western ports (all but San Diego and Seattle/Tacoma) as well as many important population centers in the Western United States. It connects with Eastern railroads at gateways in Chicago, St. Louis, Kansas City, Memphis and New Orleans. Interchange with Mexican railroads occurs at five principal gateways along the Mexican border.

Principal commodities hauled by SP over its integrated rail system, in order of 1994 gross revenue contribution, are: chemical and petroleum products (18.9%), forest products (13.3%) food and agricultural products (12.8%) and coal (9.2%). The largest contributor to SP's revenues continues to be intermodal container and truck trailer transportation (26.2% in 1994).

Our primary marketing goal has always been to take full advantage of SP's fine route structure or its franchise, as we sometimes call it. In the ever-changing logistics environment in which our customers operate, however, our franchise does not have adequate geographic coverage (or, in some cases, sufficient directness) to allow us to go after many of the expansion and other marketing opportunities that we have identified.

For example, our inability to offer single-line service on the I-5 Corridor to shippers beyond Portland means that substantial freight volumes that might otherwise move by rail are instead rolling on trucks on Interstate 5. Also, our route through the Central Corridor is too circuitous and its grades too steep to permit us to provide efficiently the shorter transit times required by many shippers, particularly intermodal. Perhaps more important, SP's comparatively limited geographic coverage requires many of its customers to rely more heavily than they would like on less efficient, less reliable interline movements than do the customers of the new BN/Santa Fe system, which is now able to offer a much wider array of preferred single-line routings and multiple-point, multiple-region transportation contracts.

b. SP's Efforts to Improve Operating Efficiency and Service Quality Are Succeeding in Some Areas. To strengthen SP's franchise, we focus on improving the quality of our transportation service and increasing operating efficiency through cost reductions and better utilization of our rail assets. Efficiency and quality are, of course, linked. Efficiency is a necessary predicate to quality.

It has become increasingly clear that to protect SP's existing customer base, and certainly to attract new transportation business, we must continually improve the quality of our service. Let me explain more specifically what I mean by that. Quality service means fast, reliable and consistent transit times. It means adequate and available car supplies and fast, trouble-free interchanges and switchings in yards, reload centers and intermodal terminals. It means sufficient and ready motive power. It means state-of-the-art technology for train dispatching, crew reporting and other operating systems and for technical support (enabling prompt and accurate information on freight car location and delivery time and in billing). It means safe and damage-free operations. And -- coupled with all of these attributes -- it means competitive prices. Even then, customer requirements change, as does the competitive environment. Quality service is thus a moving target. It requires continuous improvement. It requires leadership in service and price.

We have made progress in our efforts to improve service quality and operating efficiency. For example, one of the highlights of these efforts concerns our locomotive fleet. Scheduled train service, which is becoming more and more vital to our customers, requires greater and more reliable motive power than our old fleet was able to muster. Upgrading its locomotive fleet thus became the critical element of SP's 1993 plan to respond as quickly as possible to the increasing demand for scheduled service. In the last two years we have acquired and put into service some $800 million worth of new and remanufactured locomotives. These welcome additions to our fleet establish the necessary base for our further ongoing efforts to improve service quality and operating efficiency.

c. SP Needs to Do More. While upgrading the locomotive fleet is a step in the right direction, we have still not achieved necssary service levels. We are advancing toward many of our service-improving and efficiency-enhancing goals, but we are still not going fast enough. SP is slipping behind its major competitors on many routes, both in terms of service quality and operating efficiency. We must increase our momentum.

2. In Taking on the Burgeoning BN/Santa Fe, SP Faces Immense Competitive Challenges That Will Be Extraordinarily Difficult for It to Meet By Itself

a. BN/Santa Fe's Adroit Use of Network and Other Resource Advantages Will Accelerate the Pace of Competition. Right now, far and away, BN/Santa Fe has the best route structure in the West. Its network includes access to all major West Coast ports and Eastern gateways, as well as extensive geographic reach and broad market gathering advantages. This network gives BN/Santa Fe an unrivaled ability to offer shippers multipoint and multiregion contracts, single-line service and, with its larger business volumes, more opportunities to schedule single-destination trains with extraordinarily fast transit times.

We therefore expected BN/Santa Fe to emerge from its consolidation as a strong competitor. We expected it to take advantage of its vast geographic coverage by offering new single-line service on several key routes. We knew it would lock in substantial cost and efficiency savings and become a lower-cost provider of rail service.

The Commission, too, understood the likelihood that the BN/Santa Fe combination would move in these directions and precipitate these public benefits. Indeed, its ultimate finding that the BN/Santa Fe combination is consistent with the public interest was premised largely on the expectation that the combination would produce these benefits.

What we did not fully appreciate at the time was the full extent of BN/Santa Fe's likely progress and the speed with which it would move. Already BN/Santa Fe has become an overpowering competitor for a stand-alone SP. Very much in evidence is the overwhelming earning power of the BN/Santa Fe system and the extra cost savings and operating efficiencies that it is still wringing out of its consolidation program -- well ahead of the original schedule. This success we can only applaud, even while we contemplate what it means to SP.

What it foretells, I believe, is a new era of unparalleled, unabated and fierce competition with a much higher degree of innovation in both prices and service. This BN/Santa Fe competition is coming right at SP and, of course, UP. BN/Santa Fe's rail system is already in good condition. The planned augmentation of that system by using billions of investment dollars (including, according to a recent announcement by Mr. Krebs, $1.8 billion in capital expenditures in this year alone) to acquire or construct new and improved rail assets will enable BN/Santa Fe to push competition to unprecedented levels. And, I have no doubt that BN/Santa Fe will do just that.

b. SP's Already Difficult Situation Is Becoming Even More Difficult. Fundamentally, SP must position itself so that it can make the kinds of incremental service and efficiency enhancing investments that will allow it to retain existing customers and attract new ones. Only then would SP be able to exert competitive pressures of its own, to garner new business, and to move beyond its current status, which is often a carrier of last resort.

To do so, however, SP needs greater access to new capital, well above and beyond the cash flows provided by depreciation charges and other internal sources. It needs new capital to make the incremental investments called for by an evolving and dynamic competitive environment. At least for the foreseeable future, retained earnings will not be a source of new capital for SP, because the comparatively poor quality and the relative inefficiencies of its service at current levels tend to limit its earnings potential.

There are, of course, possible sources of new capital other than retained earnings, the preferred source of SP's competitors. Again, however, SP is tripped up by its inability to provide service comparable to that of its competitors. This shortcoming, both real and perceived, diminishes the anticipated returns and increases the risk to would-be suppliers of capital, who recently have become more apprehensive over the risk that SP will not be able to cope with increasing levels of competition from BN/Santa Fe.

The proposed UP/SP combination provides the surest and fastest way out of this financial and economic "catch-22." And, it offers many other public benefits.

3. <u>Reasons Why SP Supports Merger with UP</u>

a. <u>Customers Will Benefit from Expanded Geographic Coverage, Enhanced Single-Line Service and All-Out Competition with BN/Santa Fe</u>. Combining the route structures and facilities of UP and SP will create a network with geographic dimensions and operating efficiencies comparable to that of BN/Santa Fe. A larger network offers customers the prospect of reaching new markets as well as the advantages of new single-line service. Customers prefer single-line service, in large part because interchange between railroads can be more costly. Interchange requires operating coordination between railroads, billing and other data exchanges, and rate negotiations. Interchange also tends to make delivery times slower and more uncertain than single-line service. These characteristics can be disruptive to the customers' own businesses. They can be especially problematic in the case of service-sensitive freight, such as parts and other stocks comprising just-in-time inventories. Enhancements in single-line service thus will provide customers with greater opportunities to reduce their inventory costs and associated working capital requirements, and to reach new markets for their own products.

Like BN/Santa Fe, a combined UP/SP will enable customers to reach all major western population centers, all major West Coast ports and all principal gateways to Mexico and to eastern railroads. Customers who want to take advantage of this reach by contracting with one western railroad for all of their rail transportation needs are able to do so now with BN/Santa Fe. But, they do not now have a competing choice. With a UP/SP combination, customers will be able to choose between two strong, competing rail systems. Customer choice drives competition. It forces competition to be innovative in terms of both price and service.

The same comprehensive network advantages that are now offered only by BN/Santa Fe will be made available through a unified UP/SP system. Customers and, more generally, the public will benefit enormously from the direct, intense competition with BN/Santa Fe that would be unleashed by combining UP and SP and by activating the BN/Santa Fe access and other rights proposed by the application.

b. <u>There Will Be Substantial Efficiency Gains and Cost Reductions</u>. Based on our studies, I am confident that the UP/SP combination will result in total annual public benefits of about $750 million. This includes cost reductions of approximately $675 million, including shipper logistics savings. Savings of this magnitude cannot be realized other than through consolidation. Cost savings are expected to be achieved through reductions in payroll costs, more efficient use of locomotives and freight cars, combining the communications and other technological resources of both railroads, more efficient traffic routings and interchange, line abandonments, and closing duplicative yards and other facilities. Additional cost reductions will be achieved by consolidating the management, overhead and support functions of the two railroads.

Further benefits from combining UP and SP will come from the additional revenues that will be earned from traffic increases attributable to service enhancements. Our studies indicate that these additional revenues will net approximately $75 million per year, after taking into account both the additional cost of handling the increased traffic and the countervailing effects of the already intense BN/Santa Fe competition that will be heightened by the access and other rights to be afforded to BN/Santa Fe as described in the application.

c. UP/SP Will Be Able to Pursue Promptly Additional Investment Opportunities That Are Now Beyond SP's Reach, Including Investments Relating to Needed Service Improvements on SP's Lines. In terms of financial success, BN/Santa Fe is off to a flying start. BN/Santa Fe obviously is not going to sit on the sidelines while UP/SP gets stronger through cost savings and operating efficiencies, and by capturing increased business. I fully expect BN/Santa Fe to respond vigorously to UP/SP initiatives, even to capitalize on its headstart in anticipation of those initiatives, all across the West on all competitive fronts.

But the unified UP/SP system will have the route structure, the skilled and dedicated personnel, the resources and the will to meet the challenges of the strong new BN/Santa Fe system. The UP/SP system certainly will have both the incentives to make and, to the extent necessary, the financial resources to fund quickly a number of improvements, including the kinds of investments needed to bring service quality on SP's lines to fully competitive levels. These improvements and investments include: combining and upgrading carload and intermodal terminal facilities to reduce delays and to increase bypass capabilities; adding route capacity, particularly on the Sunset Route and the Tucumcari Line, to reduce congestion and to improve transit times, service reliability and consistency and to increase traffic density; introducing at relatively small cost UP's improved train dispatching and other technologically superior systems designed to increase operating efficiency, as well as new information technology designed to give customers the information they need when they want it; increasing tunnel clearances, particularly on the I-5 and Central Corridors, to allow double-stack container traffic; expanding car supply; and building new intermodal terminals and new reload and distribution centers.

d. The Merger Terms Are Fair. The financial terms of the proposed UP/SP combination are set forth in the Merger Agreement, which is being included as an exhibit to the Application, and will be addressed in detail in our Joint Proxy Statement/Prospectus which will be distributed shortly. I believe that these tender offer and merger terms are fair and in the best interests of SPR's shareholders.

The tender offer and merger terms were the subject of extensive discussions and arm's-length bargaining between representatives of UPC and SPR. The SPR Board of Directors unanimously approved the Merger Agreement on August 3, 1995. The Merger Agreement spells out the consideration to be received by SPR shareholders in connection with UPC's two-stage acquisition of SPR stock. The Board of Directors of SPR considered, in my opinion, all relevant factors in approving the tender offer and merger transactions contemplated by the merger agreement. Before voting to approve the UP/SP combination, the Board received the oral opinion of its financial advisor, Morgan Stanley & Co. Incorporated, to the effect that the amounts of cash and UPC stock consideration to be received by SPR shareholders pursuant to the first-stage tender offer and the subsequent merger with UPRR, taken together, are fair from a financial point of view. In his verified statement, Mr. Runde describes the Morgan Stanley analyses then presented to the Board.

Based on the foregoing, I strongly believe that the terms of the tender offer and merger, taken together, are fair to SPR's shareholders.

4. Conclusion

The proposed UP/SP combination is a win-win-win proposition for shippers, shareholders and the public. Especially in light of the trackage and other rights that will be afforded BN/Santa Fe, competition clearly will be greatly increased.

The UP/SP combination will yield tremendous public benefits, and customers will receive much better service. I am convinced that the proposed UP/SP combination is very much in the public interest. I therefore urge the Commission to approve the application promptly.

<u>V E R I F I C A T I O N</u>

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN FRANCISCO)

I, PHILIP F. ANSCHUTZ, being duly sworn, state that I have read the foregoing statement, that I know its contents, and that those contents are true as stated.

PHILIP F. ANSCHUTZ

SUBSCRIBED and sworn to before me
this 21st day of November, 1995.

Notary Public

JOSEPH F. [illegible]
COMM. # [illegible]
Notary Public — California
SAN FRANCISCO COUNTY
My Comm. Expires JUN 5, 1999

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VERIFIED STATEMENT

OF

JOHN T. GRAY

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VERIFIED STATEMENT

OF

JOHN T. GRAY

QUALIFICATIONS

My name is John T. Gray. I am Vice President-Network and Corporate Development of SP. My career has been devoted to transportation engineering, logistics, and marketing. After earning a Bachelor's degree in Civil Engineering and a Master's degree in Transportation Engineering from Tulane University, I served in the Army as executive officer of a transportation unit, then took Ph.D. courses in Transportation Systems Analysis and developed railroad cost models as a Research Assistant in the Transportation Center at Northwestern University. I subsequently taught transportation courses and developed transportation systems analysis tools as Assistant Professor of Transportation at the University of Alaska.

I then became Manager-Marketing and Sales of Alaska Railroad and, later, the Director of Transportation for ARCO Alaska, Inc. Immediately prior to coming to SP, I spent five years with BN, beginning as Director-Marketing and Business Analysis and finishing as Assistant Vice President-Chemicals. I came to SP in 1992 as Managing Director-Yield Management and was promoted to my current position in 1994. In my current and previous positions with SP, I have had considerable experience with SP's marketing activities and with SP's relationships with its customers in all of the markets it serves.

INTRODUCTION

In this statement, I will discuss the following points:

- In the climate of vigorous rail competition today, customers demand consistent service and price improvements from their carriers.
- SP currently lags its main Western competitors in terms of its ability to compete on the basis of both price and service. To become an effective competitor with its rivals, SP would have to overcome a number of operational and financial constraints that now limit the quality and number of SP's services and raise SP's costs.
- Despite the efforts of SP personnel, SP as an independent company likely will lack the resources to improve its prices and services sufficiently to compete effectively. Especially in competition with the powerful new BN/Santa Fe system, SP's capacity to make these improvements is greatly constrained by its limited financial resources and route structure.
- A UP/SP combination will supply the resources and route structure needed to ensure that high-quality, price-competitive service is available to all of the customers that depend on SP, and will produce a railroad that can provide vigorous competition with BN/Santa Fe. As a result,

in markets where SP is the sole competitor with BN/Santa Fe or UP, or is a third competitor behind the two other railroads, the UP/SP merger will bring about <u>stronger</u> competition than otherwise would be present.

In Part I of this verified statement, I will describe the expectations of shippers and the highly service- and price-competitive rail marketplace that has evolved since enactment of the Staggers Rail Act of 1980. I also will summarize customer service concerns specific to many of our major markets. In Part II, I will show that SP's service has not kept pace with that of its competitors and explain the nature of SP's service gap. In Part III, I will demonstrate that an independent SP likely will not have the resources to close the service gap with its major rivals. Finally, in Part IV, I will show that a merger with UP provides the best way to ensure that in the future, high quality, competitive service will be available for SP's customers. I will also show that customer requirements for continuing service and price improvements will be satisfied and service and price competition will be enhanced by the proposed merger.

Part I. <u>The Current Rail Service Marketplace Places Extraordinary Competitive Demands on SP</u>

Competition in the rail industry is intense. The Staggers Rail Act of 1980 freed railroads from many aspects of government regulation, allowing the market to determine rail rates and encouraging improvements in rail industry efficiency.

Customers have benefitted greatly from this liberal rail service marketplace. Rates have fallen, railroad efficiency has increased and, as this new business environment has evolved, railroads have made substantial investments to improve their productivity. Over the last 15 years, parallel with these price decreases, there has been a dramatic increase in the quality of rail service; yet customer demands for further service improvement are increasing rather than decreasing. The current environment of vigorous competition requires railroads to make continuing service and price improvements not merely to attract more traffic, but to retain their existing customers.

A. <u>Shippers Demand High-Quality Rail Service</u>

Over the last several years, businesses in many sectors of the American economy have become more efficient and profitable by applying just-in-time and other inventory management methods to minimize carrying costs for both their supplies and their finished products. These businesses impose prompt delivery requirements on their suppliers, and they do not produce and ship their own products until very close to the time that the products are needed either by an end-user or to refill a distributor's shelves. This tightly controlled ordering-production-distribution process is no longer the sole province of high value consumer goods. Today, this discipline is practiced by all industries ranging from producers of low-value construction aggregates through the complex logistics chain required for automotive and machinery production and distribution. To maximize efficiency, shippers seek to make their transportation vendors part of this inventory control process. They do so because they have come to realize that their own profitability can depend on and be improved by high quality rail service.

The cornerstone of good service for most customers is fast, consistent transit time and reliable equipment supply at a competitive price. Shippers increasingly look to their carriers for scheduled, just-in-time, damage-free transportation to reduce their own costs. Moreover, customers require pro-active technical support, such as real-time information on the location and delivery times of their freight and the ability to interrupt or expedite shipments to meet unexpected developments. Rail customers also want bills that are prompt, accurate and easy to interpret. Customers expect their carriers to have the sophisticated information technology to provide all of these features, which help customers manage their own business.[1]

Shippers place a premium on single-line service, which maximizes the speed and reliability of shipments and focuses performance responsibility on a single carrier. Customers strongly prefer single-line service over interline movements because it provides significant efficiencies, including the elimination of time consuming interchange between railroads, possible movement errors, and waybill exchange. Single-line service also provides a railroad with better equipment control

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[1] For instance, see statements of Fleischman's Yeast, Inc., V.S., Douglas Johnson; East Camden and Highland Railroad Company, V.S. Jeffery T. Lindsey.

and opportunities for more productive equipment utilization. These efficiencies of single-line service lower carrier costs and allow a railroad more flexibility to offer lower rates to the customer.[2]

Customers frequently seek contracts with "core" carriers. These are multiple-point and multiple-region contracts, which provide a package of services to and from many areas in a single rail transportation contract. These contracts are prevalent today on all railroads. Negotiating one contract to cover many points reduces shippers' transaction costs and increases their bargaining power with the "core" carrier. It also provides a shipper with flexibility to meet changing transportation needs without renegotiating transportation prices. For example, this strategy frequently permits shippers to develop new customers of their own and to ship product to them immediately under existing contracts without renegotiating the price and other terms for transportation.

Rail customers themselves are subject to increasing competitive pressures and cannot afford to stand still in the global economy. Neither can they afford to allow their vendor or carrier to stand still. They must demand increasing levels of service in order to respond to their own competitive circumstances.

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[2] See statements of Deacero, S.A. de C.V., V.S. Jose Luis Medina G.; Cascade Steel Rolling Mills, Inc., V.S. Kurt C. Zetzsche; Rexene Corporation, V.S. P. R. Malcolm.

B. Service Requirements In Specific SP Markets

Achieving fast, reliable transit times and adequate equipment supply -- the fundamentals of rail service -- requires that all elements of the rail system have adequate capacity and the ability to coordinate their operations. This requires sufficient track, terminals, locomotives and rolling stock, and the sophisticated information systems to support management processes that permit efficient utilization of these resources. As the following summary shows, in all of SP's commodity groups, conditions in our customers' own markets are causing them to seek high-quality rail service. This means SP must provide the fundamentals plus continuing improvements.

(1) **Automotive**. Automotive customers universally rely on just-in-time deliveries at both the retail and production levels. The in-transit inventory carrying costs of finished vehicles and auto parts is substantial. In addition, shutting down a vehicle assembly plant on account of shipment delays may cost the manufacturer nearly $200,000 per hour. Because automotive traffic uses specialized rail cars, consistent transit times are required to improve utilization of scarce, expensive rail resources and to meet the capacity requirements of our customers. On-time and damage-free service, as well as pro-active interline monitoring and exception reporting, are also exceedingly important for these commodities because of their high value.

(2) Chemicals. Because of reduced inventories, stricter production discipline, product customization, and just-in-time controls, chemicals customers also demand consistent service in order to plan production schedules and avoid plant shutdowns or slowdowns. Our customers, and our customers' customers, cannot manage their businesses efficiently without consistent service. Plastics shippers use rail cars as storage facilities for their increasingly customized products, requiring carriers to provide space to hold and manage the inventory of such cars until ordered to the receiver. Information technology is an important requisite of such service. In addition, because of the hazardous nature of many chemicals, safety is an important element of high-quality service for chemical customers.

The widespread use of private cars for almost all types of chemicals traffic makes fast, reliable cycle times extremely important to ensure that our customers have sufficient equipment and realize adequate returns on these assets. The most important elements in accomplishing this goal are fast, reliable transit time and scheduled high-quality switching service.

(3) Coal. As the utility industry deregulates and experiences increased competition, SP's coal customers are beginning to reduce their coal inventories to manage their costs better. Not long ago, utilities typically maintained 45 to 70 day stockpiles of coal. Today, many utilities are storing only 30 to 40 days of coal and are looking to operate with just 10 to

12 days of coal on hand. As a result, reliable rail service has become much more important in the coal area.

Many utilities provide their own equipment. Fast, reliable cycle times are an essential element in our customers' management of this important cost element in their business. Even where railroad-owned equipment is involved, cycle times are important in order to minimize carrier costs and permit rates that allow our customers to offer competitive prices in their markets. Slow cycle times increase the cost of rail transportation. In this regard, the export coal business has grown recently and holds the promise of considerable future growth. Even greater improvements in car utilization will be needed in the future to enable our coal exporting customers to develop the competitive cost structure necessary to realize the potential of this business.

Coal mines must plan their overall production levels to coincide not only with their sales, but with the ability of the railroads to move the product. Therefore, railroads' performance in the utilization of the equipment also helps determine the production levels and profitability of the coal mines themselves.

(4) **Food and consumer products**. Receivers of food and consumer products rely on consistent rail service to get their products to retail shelves in sufficient time to prevent supply shortages. Inconsistent service compromises their ability to compete in their end-markets. In addition, by creating longer or erratic rolling stock cycle times, inconsistent service exacerbates the industry-wide shortage of insulated and refrigerated box cars. The perishability of some products makes high levels of service even more critical for carriers participating in this market. Food production plants must gear their production levels to the ability of carriers to haul away finished foods as well as provide a steady supply of raw materials by rail.

(5) Forest products. In the lumber and paper markets, smaller inventories have increased the importance of reliable service. Rail service failures literally can shut down printing plants waiting for paper. Likewise, retailers of lumber products need consistent deliveries to plan sales promotions; and builders must be able to schedule construction projects. Receivers of lumber typically pay for the goods within 10 days of shipment. When the market price for lumber is volatile, delayed rail service may result in substantial losses either to the seller or buyer.

Erratic or slow service can reduce effective car supply. Customers demand car availability so that they can maximize their own production, sales and profits. In markets as volatile and seasonal as construction, a carrier must be able to furnish rail cars in a manner that permits customers to respond to market demand and to participate in the most profitable business opportunities available.

(6) Grain and grain products. Receivers of milling wheat and feed grains also have been reducing inventories over

the past three to five years. If their supplies do not arrive as planned, they may be forced to shut down or slow down plants, or scramble for costly alternative supplies at the last minute. For some export grain shippers, failure to meet promised transit times may cause them to breach their sales contracts or subject them to substantial losses if the commodity price falls during the delay. In addition, grain moving for export by ship must be timed to meet vessel arrivals and port storage capabilities.

As in other markets described above, many grain products move in private cars. Here again, customers require reliable turn times to assure adequate car supply and to maximize the return on their assets. For most grain shippers, reliable supply of sufficient cars is the most critical aspect of rail service. As I noted above, the key to maximizing the availability and minimizing the cost of a car fleet is cycle time, which is a function of rail service, speed and reliability.

(7) Intermodal. For both international and domestic intermodal shipments, car velocity and transit-time speed and consistency are of the utmost importance. Even a small delay (of a few hours) may become a 24-hour delay if the train misses a scheduled connection with an Eastern railroad. For international shipments from the West Coast, if delivery to the East Coast is not made by Friday morning, the goods will not reach the street before the following Monday, and the resulting delay may make the customer uncompetitive in its own market. Similarly, for domestic intermodal, even a few hours delay from promised

delivery times may cause shortages on retail shelves or interfere with the customer's sorting and distribution activity.

The domestic intermodal business is especially sensitive to truck competition. Customers increasingly expect a level of rail service reliability comparable to that of motor carriers. Intermodal equipment is also among the most expensive in the industry. Fast, reliable cycle times are essential to keeping costs low and prices to customers competitive.

(8) **Metals**. Both ferrous and non-ferrous metals customers of railroads are reducing inventories and demanding that rail deliveries be scheduled and delivered consistently so that they can arrange for unloading crews and can support disciplined production schedules. This production discipline is required to meet the demands of downstream users of metal products, including the automotive and construction industries. Like other process industries, the prevention of plant slowdowns or shutdowns in the metals sector depends on consistently available car supply, a factor dependent, in turn, upon reliable, fast rail transit and short cycle times. The movement of some finished steel products also requires the use of expensive specialized equipment. The cost of this equipment can only be justified by high service levels that provide fast transit and short cycle times.

(9) **Minerals, aggregates, cement, building materials, machinery and government**. Consistent service is critical for production or construction scheduling involving minerals,

aggregates, cement, and building materials. Keeping costs low is essential to support this industry since the value of these very basic products, such as sand, gravel and cement, is itself very low. Railroads must be able to offer high service levels in order to minimize the resources, particularly equipment, dedicated to support of this business. Service consistency is also required to permit customers to schedule the use of their own facilities and personnel for loading and unloading rail equipment and for production and stockpile management.

Part II. The Quality of SP's Service Lags Far Behind That of Its Major Competitors

A. SP's Service Quality Is Third In The West Behind That Offered By Its Two Major Rail Competitors

SP's service has not kept pace with the service offered by our competitors. Our relatively lower service quality does not meet the expectations of our existing customer base and limits our ability to attract new customers. One of our shortline railroad connections, states:

> "The East Camden and Highland Railroad prides itself on being an efficient railroad. At times, our credibility has suffered due to the lack of performance on the part of Southern Pacific. The Southern Pacific's lack of performance has cost our company both potential and current customers."

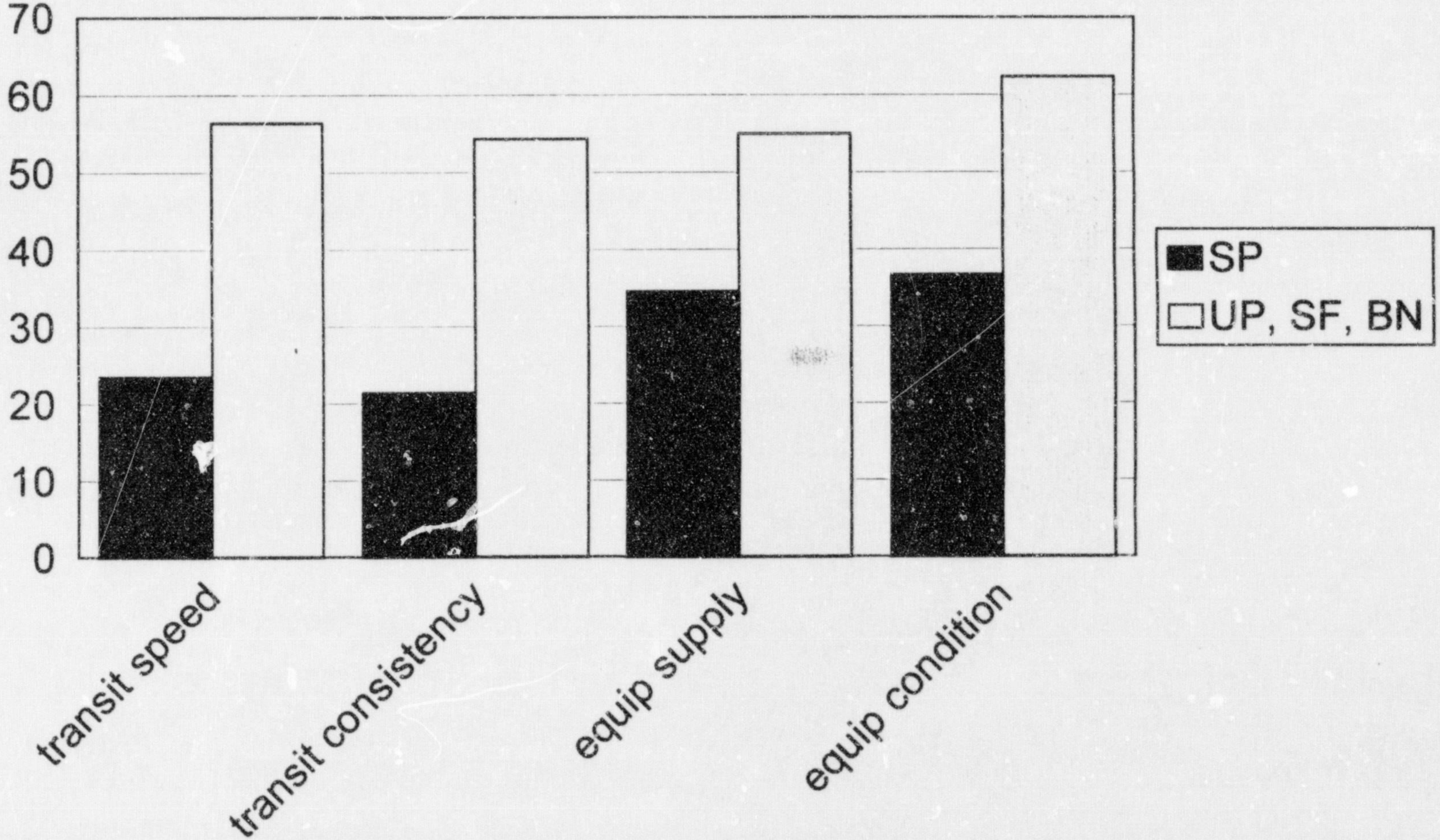
Statement of East Camden and Highland Railroad Company, V.S. Jeffery T. Lindsey at 1. Our inability to attract new customers and to serve existing customers limits our ability to generate substantial operating cash flow and improve our financial position. This lack of cash flow, of course, constrains us in making capital investments required to improve service.

The comparatively low level of SP's service quality is a major marketing problem and hinders our ability to compete for business against our Western rivals, BN/Santa Fe and UP, and against other transit modes, particularly trucks and barges. Our quarterly survey of shippers confirms the seriousness of the gap between SP's service performance and that of our major Western rail competitors. Since at least the first quarter of 1993, SP has never scored as well as any of these competitors on any of the four critical service factors: 1) transit time speed, 2) transit time consistency, 3) equipment supply, or 4) equipment condition. The gap in the percent of customers satisfied with SP versus our rail competitors is currently nearly 33 percentage points for transit time speed and consistency and between 25 and 30 percentage points for equipment. See Table 1. Overall, the gap is at 22 points. This shows sizeable dissatisfaction with SP's service in comparison with what our rivals offer.

Mr. King and Mr. Ongerth show in their verified statement that because railroads operate as networks, the attainment of fast, reliable service requires coordinated, efficient operation of railroad assets all over the system. Rail networks and terminals must have adequate capacity and design to accommodate the required volume efficiently, and locomotives must be available to support movement requirements, information systems must be adequate to support disciplined management processes, and to monitor the movement of the customer's shipment through the network and terminals and to manage car ordering,

Internal SP Customer Survey

3rd Quarter 1995



% of customers satisfied or very satisfied placement, pick-up, return and documentation. In addition, facilities and equipment maintenance must be quick and effective so that cars and locomotives are utilized to the maximum extent possible. Failures at any of these points may cause delays, which can snowball into further delays as the effects are felt across the system.

SP confronts daily the greater capacity of BN/Santa Fe and UP to offer the many dimensions of high-quality service. SP is behind its competition in service today. In addition, the financial strength, route structure and operating efficiencies of our competitors, particularly BN/Santa Fe, will support dramatic and continuing improvements in their service. For example, as Mr. Yarberry points out in his verified statement, BN/Santa Fe has announced plans for $3 billion in capital spending in the next two years, spending that will dwarf SP's service improvement and cost reduction efforts.

SP cannot begin to match these expenditures. But even if it could, SP cannot hope to match either the range or the efficiency of service options that will flow from BN/Santa Fe's more extensive geographic scope and network coverage. BN/Santa Fe simply has more products to sell than we do. BN/Santa Fe's unprecedentedly large and extensive route structure allows access to all the major West Coast ports and Eastern gateways (with the sole exception of New Orleans), and gives it an unequalled ability to satisfy shipper demands for single-line service and multiple-point contracts. BN/Santa Fe's huge gathering network will also provide opportunities to operate single destination trains based on available business volume. To provide anything comparable to this operation, SP would be required to consolidate business from many sources, some of which would be interline, and then operate through many intermediate yards in order to build efficient train size. The differences in transit time and consistency would be measured (to BN/Santa Fe's advantage) in days, not hours.

SP faces significant marketing difficulties offering interline service in competition with BN/Santa Fe single-line service. BN/Santa Fe's extensive route structure also provides it with many opportunities to draw business from SP through intermodal and transloading operations. Over the next several years, SP faces an increasing competitive threat from BN/Santa Fe intermodal and transloading operations where that system does not directly serve SP carload customers. We expect that facilities and equipment in support of these marketing efforts will be a significant part of the aggressive BN/Santa Fe capital spending plan.

Although SP's settlement in the BN/Santa Fe merger proceeding cured several significant competitive problems created by that merger, it has become clear that it did not provide SP with the additional benefits necessary to compete effectively overall with the market scope and other resources of BN/Santa Fe. As I discuss below in more detail, SP must improve its service and control its costs in order to meet its competition. SP's ability to succeed in these efforts will be hampered by its inability to make the investments necessary to relieve its congestion and capacity problems in certain corridors and terminals. Future investment by BN/Santa Fe and other railroads, particularly in technology, will uncover further possibilities for creatively enhancing service quality, thereby widening their competitive advantages over SP.[3]

The most important advantages of sophisticated information technology are the dramatic service benefits arising from the railroad's improved ability to manage its traffic. This would include better scheduling of assets and services, the ability to plan terminal and local operations, and the ability to plan and to control equipment utilization. SP cannot implement initiatives such as these without substantial future investment in sophisticated information technology, which SP likely will lack the financial resources to develop. Manual substitutes,

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[3] Future possibilities can be glimpsed in today's cutting-edge service developments. For example, if a customer's plant develops an inventory shortage and wants the shipment expedited, pro-active tracking would permit the freight to be located, taken off the train and trucked or flown to destination.

Information technology capable of quickly producing accurate bills saves both customer and carrier administrative time and aggravation. In addition, sophisticated billing techniques would permit customers to use creative shipping arrangements to improve efficiency and cut costs. For example, automotive customers of BN/Santa Fe and UP can get individual vehicle identification number ("VIN") billing, which permits them to achieve efficiencies by optimizing vehicle loading on each rail car and to custom design the mix of the load. SP cannot do this.

which SP now relies upon in many cases, will be inadequate to make SP a strong competitor in the future.

As discussed below, it should be noted that UP already possesses many of the facilities and systems that will be required by SP. These highly productive assets would become available to SP's customers with little additional investment after the proposed merger.

B. **SP Faces Significant Service Quality Issues In All Of Its Corridors and Markets**

In the following pages, for SP's major traffic flows, I will provide specific examples illustrating SP's need for service quality improvements to keep pace with its competition.

(1) **Oregon/Central and Northern California/Utah/Colorado-Kansas City/St. Louis/Chicago**

Traffic flowing between the West Coast and Chicago includes some of SP's most time- and service-sensitive traffic, such as:

- food and consumer products (including refrigerated shipments of perishables) originating in California's "food basket";
- lumber originating in the "wood basket" of the Pacific Northwest ("PNW");
- paper moving from Oregon to printing plants in the Midwest;
- coal and minerals moving from Utah and Colorado to the Mississippi River, Eastern gateways, and beyond; and
- automotive traffic.

In general, SP's transit time between the Northwest Coast and Chicago is far longer than that of its competitors. In fact, SP's fastest time is worse than its competitors' slowest time, and the variability of SP's transit times is much greater than that of its competitors.

For example between July 1994 and May 1995, for food products between California and the Chicago gateway, SP's best and worst transit times to Chicago were 10.4 and 18.1 days respectively. Santa Fe's times were between 4.8 and 6.2 days. From Oregon, for perishables, BN can make it to Chicago in a consistent 8 days, while SP generally does no better than 14. For lumber moving between the PNW and Chicago (for movement beyond) in 1994, the following shows comparative ranges of transit times:

BN	6-7 days (average 6.5)
UP	7-8 days (average 7.5)
SP	9-18 days (average 11.8)

In some instances, SP's transit times for perishables have been so slow that the claims for damages because of late delivery have actually exceeded the revenues from the move.

SP's longer transit times between the West Coast and Chicago also result in longer turn times for equipment. This aggravates equipment shortages for scarce cars, such as insulated and temperature controlled box cars and centerbeam flatcars. It also means that more equipment is required to move the same amount of traffic, which further exacerbates delays resulting from congestion, increases SP's costs, and limits its ability to provide competitive freight rates to customers. It also limits SP's ability to compete for as broad a portion of the market as would otherwise be possible. This, in turn, restricts our customers' ability to penetrate their own end markets.

SP has lost significant amounts of business to other railroads and to trucks. Forest products and food and consumer products traffic is particularly susceptible to transloading. Recently, a number of SP customers have made arrangements to avoid SP by transloading their freight to Santa Fe, UP, or BN at origin in California or Oregon. Shippers view the price premiums paid for that service as outweighed by the assurance that SP's poor service will not cause them to shut down a plant, have stock shortages at the retail stores, or scramble for even more costly alternative supplies to avoid losing their own customers. These customers tell us that service is the primary issue, not price. For example, Midstate Lumber Corporation states:

> "In January 1995, we stopped shipping on SP and transferred all of our business to BN-SF. Our business is very time sensitive and requires efficient service. . . . We finally concluded that SP was incapable of providing the service we require and, out of necessity to preserve our own business, had to stop shipping on SP. This was unfortunate, since many of the mills located on SP lines produce superior wood products which we prefer."

Statement of Midstate Lumber Corporation, V.S. George Bilderback at 2.

SP's service delays have lengthened equipment cycle times, which dramatically raise SP's costs above those of its competitors in this corridor. For example, we estimate that our car hire costs for forest products are significantly higher than BN's, and our overall costs have been 15-20 percent higher in this critical Central Corridor. BN/Santa Fe has single-line service in this important route for forest products, which will only enhance its demonstrated ability to gain SP traffic through transloading and its financial ability to price aggressively. BN/Santa Fe thus threatens SP's ability to compete for this traffic; and it threatens the ability of SP's customers to remain competitive against BN/Santa Fe shippers in their end markets.

Much of SP's coal traffic flows from the mines of Utah and Colorado to St. Louis for onward movement by barge to customers in the Southeast. These customers have told SP that they are skeptical of SP's ability to provide the level of service they require.

SP has had trouble delivering coal in consistent cycles from Colorado and Utah mines. As I noted above, SP's coal traffic has been marked by relatively slow cycle times compared to BN as a separate railroad. For this reason, even though SP's coal business now is expanding, SP has not been able to earn the revenue that should have been available. Nor has it been able to earn the returns on that revenue that should have been possible.

SP has significant flows of the mineral perlite, which originate in Colorado and move to Eastern gateways. The perlite producers want consistent transit times of seven days to the gateways. SP's transit times have ranged between five and 17 days. Because consistency is the issue in moving these supplies to plants where the mineral is used in production, this variability of transit time has caused plant shutdowns or slow downs. SP customers have resorted to trucking perlite long distances to ensure regular supplies at a substantial cost premium. In addition, transloading to BN/Santa Fe is available and provides consistent 7-day service to the Eastern gateways, despite the extra work and expense of a transload operation.

(2) <u>Portland-Southern California</u>

Traffic flowing between Oregon points and the Los Angeles basin, the I-5 Corridor, includes:

- paper and lumber moving from Oregon and Northern California to the nation's largest forest products destination market in Southern California and Arizona;
- food products shipped within California;
- metals traffic, particularly steel moving from the PNW and scrap moving from Arizona and Southern California to the PNW; and
- intermodal traffic running between Portland and Southern California.

SP's service consistency has been a serious problem in marketing our rail service for forest products. Paper and lumber receivers increasingly work on just-in-time inventories. SP has caused printing plants to shut down when paper failed to arrive for a scheduled press run. We have experienced significant defections to trucks for paper traffic destined to Southern California. One of our lumber customers notes that for shipments of lumber products to builders, "service on Southern Pacific's Oregon to California line has proven to be slow and rather inefficient, with turnaround times suffering as a consequence." Statement of Golden State Lumber, Inc., V.S. Wayne Withers at 1.

A major food products company moves on the portion of the I-5 corridor where SP and Santa Fe compete head-on, with both carriers serving the Northern California origin and the Southern California destination. While SP's recent performance for this account averaged 9-day transit time, with 90% within 12 days, Santa Fe's performance averaged 5 days, with 90% within 6 days.

Similarly, steel producers require consistent transit times and equipment supply in order to schedule inventories and plan production. The operation of one of our steel customers in the PNW illustrates the impact of rail service problems in this industry, where transportation is an integral part of the production process. Our customer produces steel plate at a mill in the PNW, which is served by UP but open for reciprocal switch to BN and SP. Some of the customer's steel plate production is shipped as "skelp," the raw material for producing pipe, to the customer's own pipe mill, located in California and served exclusively by SP. When the customer's pipe mill bids to produce pipe for its own customer, it must be assured that a regular supply of skelp will arrive by rail from the PNW. This customer has suffered long delays in the transportation segment of its production process due to the UP reciprocal switch at origin which requires UP to interchange this business with SP. This reduces the reliability of our customer to its own customer, and the impact ripples through the succeeding chain of business relationships. In order to provide the steady supply necessary to keep the pipe mill running, our customer has, from time to time, shipped skelp by truck at a significant cost penalty. Similarly, the steel plate mill in Oregon requires a steady supply of scrap by rail to maintain constant production.

The statement filed by Cascade Steel Rolling Mills, Inc. demonstrates the importance of reliable service and equipment supply for the steel industry in this corridor.

> "We have experienced periodic difficulties with SP because of their inability to provide us with all of the cars that we require, and this has affected our production.
>
> . . . SP's people do not have the resources available to them that their competitors now have and SP's service suffers as a result. When that happens our business suffers also."

V.S. Kurt C. Zetzsche at 2-3.

For intermodal traffic in this corridor, insufficient tunnel clearances in the Cascades are the biggest marketing disability for SP. Today, our trains cannot handle the movement of two high-cube containers in double stack service, which not only limits the capacity we offer to customers, but restricts our ability to reduce our unit costs.

(3) Southern California/Arizona/New Mexico-Kansas City/St. Louis/Chicago

Commodity flows between Kansas City and the West Coast or Southwest include:

- grain moving to feedlots and mills in Arizona and the Los Angeles Basin and grain products such as syrups and oils moving to food processors in Southern California;
- metals and ores moving from Arizona to the Midwest;

- paper moving from Eastern and Canadian connections in Chicago to Southern California and Arizona;
- automotive traffic interchanged with Eastern carriers at Kansas City, East St. Louis and Chicago moving to and from Southern California and Western Mexican gateways; and
- intermodal traffic to and from Southern California.

Many shippers of these commodities have defected from SP to other railroads and to trucks because of unreliable and slow transit times that have not been corrected. For instance, SP's history of irregular service has made it difficult for livestock feeders to rely on deliveries -- an important factor because they keep only a few days' supply of feed grains on hand. When deliveries are late, they must make other transportation arrangements at substantial extra cost to them. Some of this traffic is transloaded so that customers can avoid SP. Some moves on trucks. Similarly, flour mills in Arizona are transloading milling wheat from the Santa Fe, so as to prevent production interruptions due to SP service irregularity. Oils and syrups producers with product moving from the Midwest to Los Angeles have been routing adverse to SP-switched industries in order to avoid SP service failures.

The effect of unreliable transit times on supplies of grain cars is particularly damaging because these cars are in short supply. In October 1995, SP's average number of cycles per month on grain cars was 0.64. In contrast, even as a separate railroad, BN's average was 1.5 cycles per month, and BN/Santa Fe has programs in place to increase this figure to 2.0 cycles per month. Clearly, the carrier able to get the best utilization from its car fleet will be better able to supply customer demands with existing resources, and will be able to do so in the most cost efficient manner.

Recently, a Santa Fe reload operation has taken away SP paper traffic moving from the East over Chicago and Kansas City destined for printing plants in Arizona because the transit times from Kansas City on SP were erratic, for example, taking 8-15 days. Service delays had caused several expensive plant shutdowns.

Some finished copper products in Southern Arizona are trucked to the BN/Santa Fe in Phoenix to get around SP. In addition, SP has lost finished copper traffic moving from Arizona because of unreliable service. Customers need just-in-time delivery of finished copper to warehouses in St. Louis and Indiana, but SP's transit time has ranged between four and 12 days. Because of the high value of the product, SP's customers are willing to pay a substantial premium for truck transportation rather than relying on SP.

For intermodal traffic, slow, unreliable transit times also hinder SP's ability to compete. Santa Fe consistently makes 56 hours between Los Angeles, California and Chicago. SP is not able to match these transit times and is not competitive on traffic requiring faster transit, such as domestic LTL and full truckload motor carrier business. Our schedule is "a day longer" with a 70-hour schedule.

In 1992, SP lost to Santa Fe automotive business in this corridor, which, by itself, amounted to almost two percent of SP's gross revenue. Santa Fe was able to take this business away by aggressive pricing and also by making commitments to invest in new multi-level rail equipment and to construct inland automotive terminals in the Los Angeles Basin and at Phoenix.

This episode is a classic example of the competitive value of the railroads' ability to assure their customers that they have the capacity to provide excellent service. Santa Fe had the resources to be able to promise and follow through on this investment; SP did not. This episode is also an example of Santa Fe's capacity for aggressive pricing and SP's vulnerability to such a strategy. We likely will see more of these situations in view of the tremendous BN/Santa Fe pricing power and investment capacity described by Mr. Yarberry.

(4) Chicago/St. Louis/Kansas City-Memphis/New Orleans/Texas

Traffic flowing between these points includes:

- chemicals, plastics, and petroleum products flowing between Texas and the Gulf Coast and points in the Midwest and Eastern gateways, and
- intermodal traffic moving between Texas and the Gulf Coast and Chicago and other Eastern gateways.

Again, these customers have told us they need improvements in SP's service consistency. One of our petroleum products customers says:

> "Traditionally, it has taken COTC twice as many days to move our tank cars on SP as it has on the UP, BN or ATSF. Typical transit time from the Midwest to Texas on the SP is two weeks compared to five days on the

other railroads. In fact, in 1994 it took COTC three weeks to move loaded cars from McPherson, KS to Houston, TX. By the time the cars arrived the market had shifted and COTC lost money on the sale and incurred increased costs due to the transit time. In COTC's opinion, the SP has not been a viable competitor with the UP, BN, and ATSF . . . ."

Statement of Consolidated Oil & Transportation Company, Inc., V.S. Jim Hebert at 2.

SP recently has lost substantial contracts for chemical traffic in this corridor due in part to poor service performance. Most of this traffic went to BN, and some was lost to truck. Our customers tell us that the issue for them is service, not price. SP's overall service consistency (transit times within 24 hours more or less than promised) for chemicals is around 40 percent. This means that 60 percent of the time SP's transit times are two or more days late, in a short corridor where running time is usually two days or less. Thus, our customers' experience with SP leaves them with no confidence that SP will deliver as promised. Our service deficiencies also raise our customers' costs for equipment. For instance, where a customer sizes its fleet of leased cars based on SP's service standard and SP fails to meet that standard, the customer may find that it has to lease 30 or 50 percent more cars at substantial extra expense.

(5) <u>California/Arizona/New Mexico-Texas/Memphis/ St. Louis/New Orleans-Mexican Gateways</u>

Flows on this corridor include:

- chemicals, petroleum products, and plastics moving from Texas to the East and to the West;
- cement, minerals, aggregates and building materials;

- intermodal traffic; and
- traffic moving to and from Mexican gateways, including automotive and grain flows.

Despite the superiority of SP's route between these points, SP's inconsistent service has not satisfied our customers. We have a number of cement, minerals, aggregates, and building materials flows that, despite short routes, have not been quickly or consistently delivered. In these cases, SP's service delays cause equipment supply to be inadequate because the cycle times are too long. As a result, shippers of building materials from Arizona to Los Angeles and from Texas to California are now shipping by truck or transloading to UP or to Santa Fe. These customers pay higher transportation rates to get better service than SP can provide.

Shippers of plastic pellets from Houston to California have eliminated or reduced shipments via SP even though SP has the most favorable route, and diverted to Santa Fe. This has been at the insistence of their own marketing departments to avoid losing their customers due to SP's inconsistent service. When this occurs, SP effectively ceases to be a real competitor in this business line.

One of our asphalt shippers notes that poor service from SP has cost it hundreds of thousands of dollars in additional costs. "It became necessary for us to move from a plant location serviced by the SP to another location in Phoenix being served by the Santa Fe railroad in order to remain competitive in our industry and give the service that our customers expect from us." Statement of Navajo Western Asphalt Company, V.S. Leland S. Brake at 2.

In one instance, SP lost a substantial piece of domestic intermodal business for traffic between Los Angeles/Phoenix and Memphis/Dallas, to a joint routing (under a special haulage arrangement) over Santa Fe and BN. The customer, which requires very consistent, precise service scheduling to permit sorting and further movement to delivery, told us that SP's single-line service was unacceptable.

SP serves the Mexican crossings of Nogales, Eagle Pass, El Paso and Brownsville. Much of the Mexican rail traffic is automobiles and auto parts moving to and from plants in Mexico at Hermosillo (over Nogales), Aguascalientes, Ramos Arizpe, Puebla and Silao (over Eagle Pass), and Matamoros (over Brownsville). In addition, the crossing at Nogales is the efficient SP route for export grain flows to Western Mexico. SP's service has caused problems for all of these flows.

As noted above, the strict just-in-time nature of automotive shipments means that SP's delays can and have shut down plants or required alternative premium transportation. SP has lost grain business over Nogales because of its unreliable service and the unavailability of equipment. Sometimes U.S. shippers will forgo this business altogether because the risks of SP's uncertain delivery times are so costly. Sometimes, in order to get more reliable service, U.S. grain shippers have routed shipments to New Orleans by rail and then via water through the

Panama Canal at a significant price premium above SP's rate over Nogales.

C. SP's High Costs Due To Its Service Problems And Route Structure Make It Even Less Competitive

Many of SP's operating inefficiencies and service problems increase its costs. Because of poor transit times and slow turns, SP needs more equipment and locomotives than it otherwise would. SP's payments of car hire per diem for foreign cars are higher than satisfactory due in part to SP's relatively long car cycle times. In addition, SP's train delays increase the need for additional crew starts to keep trains moving when crews reach the end of their shifts and have not arrived at their destination terminals.

The characteristics of SP's route structure also contribute to SP's costs as a percentage of revenues being significantly higher than those of our competitors. On our Southern Corridor, we have less density than BN/Santa Fe, and on our Central Corridor we have less density than UP. The combined density of SP's two main lines is less than that of either UP or the former Santa Fe. To understand the impact of line density on the comparative economics and service performance of SP versus UP and Santa Fe, consider the following: UP handles 110-120 million gross tons on its double track mainline between Green River and Cheyenne, Wyoming; Santa Fe, as a separate railroad, handled 74-85 million gross tons on its double track mainline between Belen, New Mexico and Winslow, Arizona; while SP handles 55-64 million gross tons on its single track mainline between Yuma, Arizona and

El Paso, Texas, and only 24-31 million gross tons on the densest segment of its Central Corridor.

Lower line density on both SP's Southern and Central Corridor routes increases unit costs. In addition, while SP handles significantly less tonnage on its Southern Corridor route, it suffers from far worse congestion on its single track west of El Paso and between El Paso and Herington, causing transit time delays and inconsistencies and further increasing costs.

From the standpoint of roadway maintenance, we also have a less efficient arrangement of our track capacity. In the Southern Corridor BN/Santa Fe, and in the Central Corridor UP, each have double track main lines. This ensures that the essential work of track maintenance can be carried on efficiently and without disrupting service. Efficiency comes from the ability to permit track maintenance crews to work on a track without interruption, for the optimum length of time, while service is maintained at effective levels by the use of the second track. SP, on the other hand, must completely shut down its track while crews are at work, which causes both interruptions in service and interruptions in the track work.

Additionally, as indicated above, BN/Santa Fe and UP each has greater capacity on its double-tracked corridor than SP has on its corresponding single-tracked corridor. This greater capacity has allowed Santa Fe and UP to utilize their high density routes more cheaply and efficiently than SP, which must operate and maintain two completely separate transcontinental main lines. It also permits UP and BN/Santa Fe to market aggressively for additional business, secure in the knowledge that the capacity to handle increased business is available.

The relative differences between SP's density and costs and those of BN/Santa Fe and UP likely will grow worse as SP's competitors become more efficient through vigorous competition against each other, and increase their own traffic at SP's expense. This will be further aggravated by the ability of these competitors to continue heavy investments in plant and equipment improvements far beyond SP's capability.

SP's higher costs impose constraints on its marketing capabilities because they preclude a long-term strategy of gaining or holding business through unusually low or aggressive pricing. We also cannot expect to be able to continue to compete as vigorously as our competitors become more cost efficient. While there may be sporadic instances where a particular piece of business might be retained through aggressive pricing, this is not a plausible strategic option for the highest cost railroad in the market. Indeed, we have seen numerous examples where SP has lost business on price to BN or Santa Fe as separate railroads, which through greater operating efficiencies were able to offer an attractive price to the customer that we could not match profitably. In any case, customers have made it clear that they are not interested in especially low rates that come at the expense of service that costs them their own customers. As

BN/Santa Fe rapidly implements its efficiencies, SP's higher-cost structure will increasingly hinder its competitive capacity in many markets.

An example of the effects of SP's service-hampered, higher-cost structure can be seen in the movement of Oregon lumber to Midwestern markets. As noted in Section II.B.1. above, SP's average transit time in the market, 11.8 days, exceeds BN's by 5.3 days in each direction. Thus, on the round trip movement of rail cars in this service, BN will have a cycle time advantage of 10.6 days. A modern centerbeam flat car costs about $25 per day for either car hire per diem or lease payment. Thus, BN would have a minimum cost advantage of $265 per carload if all other factors were equal (other lower costs such as labor and fuel also work to BN's advantage). This means that BN could profitably handle business with prices at least $264 below SP's costs. This permits BN to fill its capacity with the most attractive business, and could force those customers left to SP to absorb higher transportation costs or exclude their products from Midwestern or Eastern markets.

SP has been unable to handle military traffic between Chicago and Texas, and St. Louis and Texas, primarily because its costs exceed those of its competitors, particularly Santa Fe, which has been able to under-bid SP substantially on numerous occasions.

SP's higher-cost structure also causes it to earn a smaller contribution on competitive traffic. This further hurts

SP's financial position and often makes SP an ineffective competitor. By contrast, its lower-cost competitors can meet or beat SP's prices and still earn sustaining contributions over variable costs that allow them to maintain and enhance high-quality service. In the example noted above, if SP priced at $1 above cost, BN could match this price and still earn a contribution of $266 above cost. At the same time, SP's higher costs require correspondingly high prices on traffic served exclusively by SP. Both these circumstances are detrimental to customers, and are gradually making SP an even less effective competitive option.

Part III. As an Independent Carrier, SP Faces Great Difficulty In Developing The Resources To Improve Its Service Sufficiently To Be Competitive With BN/Santa Fe and UP

SP has made great efforts in recent years to keep its service at levels acceptable to customers. Given this effort and the strengths of SP's franchise, and the economic growth in the geographic regions and economic sectors we serve, we have continued to show modest traffic growth. Capacity restraints on other railroads also have allowed SP to participate in the overall growth of rail traffic.

In addition, the Clean Air Act has increased the demand for the high-BTU, low-sulfur coals from mines located on SP, leading to some recent growth in coal traffic. Nevertheless, as our coal traffic increases, we are beginning to face capacity limitations that, unless addressed, will not allow SP or its customers to exploit fully the possibilities for growing this business. SP also has developed its international intermodal traffic -- in part because a decade ago it developed an intermodal facility in Long Beach, California, which is extremely efficient.

Nevertheless, our modest revenue growth generally has not been anywhere near that of UP or BN and Santa Fe. Worse, with the strength shown by BN/Santa Fe, which is much greater than we anticipated even six months ago, it now appears that overcoming both the low quality of service that we offer compared to that of our competitors, and our higher-cost structure, will be even more difficult than we expected.

There are two reasons why, especially in comparison with BN/Santa Fe, we cannot be optimistic about our ability to narrow the gap with our competitors but must instead expect to fall further behind.

One is our limited route structure and resulting geographic coverage. As far as they go, SP has several excellent routes. They afford us excellent coverage of several regions and connections among these regions. But our system does not measure up to the geographic scope and coverage of BN/Santa Fe. BN/Santa Fe's route structure offers, to an unprecedented extent, the efficient single-line service so sought after by shippers. Put simply, BN/Santa Fe's route system gives it more and better service products to develop and to offer than its competition, either SP or UP standing alone, can provide.

Second, and very important, as Mr. Yarberry explains SP has very limited financial capacity. As Mr. Yarberry shows, it will be difficult for SP to finance the massive investments that should be made in the near future to keep pace with the huge investments now being made by BN/Santa Fe. Some of the investments that we should be making in the near future include the following:

- improve the efficiency of our carload and intermodal terminals, including several of our larger yards, to avoid delays; and acquire additional intermodal and other specialized facilities, including an intermodal facility in Chicago, and an inland intermodal facility in Southern California;
- increase our route capacity so that congestion does not prevent fast, reliable, scheduled service and so that we can achieve the economies of density of our competitors;
- upgrade our information technology to provide customers with pro-active, up-to-the-minute information and accurate bills and to provide the information necessary to rigorously manage SP's service product and the costs associated with providing that service;
- increase tunnel clearances to take better advantage of route capacity, to improve density, and to lower costs;
- provide adequate, and in many cases specialized, rail cars;
- improve the efficiency of our equipment maintenance facilities;
- continue modernization of our locomotive fleet, including switch engines, permitting us to remove from service units 30 to 40 years old;
- build reload and distribution centers to serve customers not reached directly by SP better;
- upgrade our Mexican gateways.

Without these major capital investments, we will not be able to keep up with the level of service and competition offered by BN/Santa Fe and UP. As Mr. Yarberry notes, at this time we simply do not have the financial capacity to make these investments.

Part IV. The UP/SP Merger Will Ensure That High-Quality Is Available to SP's Customers and that Vigorous Competition Will Prevail in the West

A. UP/SP Is The Best Competitive Response To BN/Santa Fe

Mr. Peterson describes how UP and SP together will meet the network advantages possessed by BN/Santa Fe. Based on the proposed UP/SP merger's Operating Plan, I want to discuss, from SP's perspective, how the UP/SP combination will remedy the shortfalls of SP's service and provide shippers with the substantial benefits of vigorous competition with BN/Santa Fe.

First and foremost, SP and UP together will be able to match the extraordinary range of BN/Santa Fe's efficient single line service in a way that neither railroad -- particularly SP -- could hope to do alone. The merger is thus necessary for SP (and UP) shippers to have service offerings that are truly competitive with those enjoyed by BN/Santa Fe customers.

UP will bring sizable financial resources to the task of upgrading SP's plant and equipment capacity and making them more efficient. Furthermore, merger with UP will provide many of the service improvements needed by SP without significant additional expenditure. This is particularly the case with information technology, where existing UP systems can be