

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13E-3

Rule 13e-3 Transaction Statement (Pursuant to Section 13(e) of
the Securities Exchange Act of 1934)
Amendment No. 4

Chicago and North Western Transportation Company

(Name of Issuer)

Chicago and North Western Transportation Company
Union Pacific Corporation
Union Pacific Holdings, Inc.
UP Rail, Inc.

(Name of Person(s) Filing Statement)

Common Stock, Par Value \$.01 Per Share

(Title of Class of Securities)

167155 10 0

(CUSIP Numbers of Class of Securities)

Robert Schmiede Chairman of the Board and Chief Executive Officer Chicago and North Western Transportation Company 165 North Canal Street Chicago, Illinois 60606 (312) 559-7000	Richard J. Ressler, Esq. Assistant General Counsel Union Pacific Corporation Martin Tower, Eighth and Eaton Avenues Bethlehem, Pennsylvania 18018 (610) 861-3200
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(Name, Address and Telephone Number of Persons Authorized
to Receive Notices and Communications on Behalf of Person(s)
Filing Statement)

with copies to:

Paul J. Miller, Esq. Sonnenschein, Nath & Rosenthal 8000 Sears Tower Chicago, Illinois 60606 (312) 876-8000	Paul T. Schnell, Esq. Skadden, Arps, Slate, Meagher & Flom 919 Third Avenue New York, New York 10022 (212) 735-3000
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This Amendment No. 4 amends and supplements the Rule 13e-3
Transaction Statement relating to the tender offer by UP Rail,
Inc. (the Purchaser), a Utah corporation and a wholly owned
subsidiary of Union Pacific Holdings, Inc., a Utah corporation
("Holdings"), and an indirect wholly owned subsidiary of Union
Pacific Corporation, a Utah corporation (Parent), to purchase
all outstanding shares of Common Stock, par value \$.01 per share
(the Common Stock), of Chicago and North Western Transportation
Company, a Delaware corporation (the Company).

Unless otherwise indicated herein, each capitalized term
used but not defined herein shall have the meaning assigned to
such term in Schedule 13E-3 or in the Offer to Purchase referred
to therein.

ITEM 16. ADDITIONAL INFORMATION.

The information set forth in Item 16 of Schedule 13E-3 is
hereby amended and supplemented by the following information:

As previously disclosed in the Offer to Purchase under the
caption "SPECIAL FACTORS--Interests of Certain Persons in the
Transaction," the Company and UPRR have offered three-year
employment agreements to certain executives which, if accepted by
the executives, will replace the Change of Control Employment
Agreements which the executives now have with the Company. In
addition, in order to implement the terms of the severance
arrangements described in the Offer to Purchase, the Company,
UPRR and CNW Railway have offered severance agreements to certain
executives who have Change of Control Employment Agreements with
the Company. A form of the employment agreements and severance
agreements being offered are attached hereto as Exhibits (g)(10)
and (g)(11), respectively, and are incorporated herein by
reference.

On April 4, 1995, Parent, UPRR, MPRR and the Company submitted to the ICC a petition for a determination that the terms of the Merger are just and reasonable. A copy of such petition is attached hereto as Exhibit (g)(12) and incorporated herein by reference.

ITEM 17. MATERIAL TO BE FILED AS EXHIBITS.

- (g)(10) Form of employment agreement to be entered into by the Company, UPRR and certain executives.
- (g)(11) Form of severance agreement to be entered into by the Company, UPRR, CNW Railway and certain executives.
- (g)(12) Petition for a determination that the terms of the Merger are just and reasonable, filed with the ICC on April 4, 1995, by Parent, UPRR, MPRR and the Company.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: April 6, 1995 CHICAGO AND NORTH WESTERN
TRANSPORTATION COMPANY

By: /s/ Ronald J. Cuchna

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: April 6, 1995 UNION PACIFIC CORPORATION

By: /s/ Carl W. von Bernuth

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: April 6, 1995 UNION PACIFIC HOLDINGS, INC.

By: /s/ Carl W. von Bernuth

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: April 6, 1995 UP RAIL, INC.

By: /s/ Carl W. von Bernuth

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
(g)(10)	Form of employment agreement to be entered into by the Company, UPRR and certain executives.
(g)(11)	Form of severance agreement to be entered into by the Company, UPRR, CNW Railway and certain executives.
(g)(12)	Petition for a determination that the terms of the Merger are just and reasonable, filed with the ICC on April 4, 1995, by Parent, UPRR, MPRR

and the Company.

EMPLOYMENT AGREEMENT

AGREEMENT made and entered into by and between Chicago and North Western Transportation Company ("CNW"), Union Pacific Railroad Company (the "Company") and _____ (the "Employee") dated this 3rd day of April, 1995.

W I T N E S S E T H :

WHEREAS, Employee is presently employed by CNW as an executive;

WHEREAS, CNW, Union Pacific Corporation and UP Rail, Inc. have entered into an Agreement and Plan of Merger dated as of March 16, 1995 (the "Merger Agreement") under which CNW will merge with a subsidiary of Union Pacific Corporation; and

WHEREAS, the Employer (as defined in Section 1 hereof) is desirous of assuring the continuing employment of Employee as an executive of the Employer after the date of consummation of the merger contemplated in the proposed Merger Agreement (the "Merger Date") and the Employee is desirous of such continuing employment;

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, the parties hereto agree as follows (this Agreement to be binding upon the parties upon its execution, but to become effective immediately upon the later of such execution or the consummation of the "Offer" (as defined in the Merger Agreement)):

1. Employer. In this Agreement the term "Employer" shall mean CNW from the date hereof through the Merger Date (or through the end of the Term, if the Merger Date shall not occur prior thereto) and shall mean the Company or a Company-designated affiliate (including CNW) beginning the day immediately following the Merger Date.

2. Term. Employer hereby agrees to continue employing Employee and Employee agrees to be so employed for a period commencing as of the date hereof (the "Effective Date") and continuing through the third anniversary of the Merger Date (the "Term") or such earlier termination date as hereinafter set forth (the "Employment Period").

3. Duties. During the Employment Period hereof, and excluding any periods of vacation or sick leave to which the Employee is entitled or periods of the Employee's physical or mental incapacity, Employee agrees to devote the Employee's full time and best efforts in the discharge of the duties assigned by the Employer. It shall not be a violation of this Agreement for the Employee to serve on corporate, civic or charitable boards or committees, so long as such activities are consistent with the policies of the Employer (as from time to time amended) and do not interfere with the performance of the Employee's duties in accordance with this Agreement.

4. Compensation.

(a) As remuneration for the full-time services to be rendered to the Employer during the Employment Period, Employee shall be paid annually no less than (i) the Employee's annual base salary in effect immediately prior to the date hereof and (ii) the Employee's "Annual Bonus Amount", which shall be equal to the bonus paid to the Employee with respect to 1994 (which is agreed to have been 73% of the possible maximum bonus for the Employee for such year). Annual base salary shall be paid in a manner and frequency consistent with the pay practices of the Employer. For calendar year 1995, the Annual Bonus Amount payable to the Employee by the Employer shall be reduced by any bonus paid to the Employee by CNW attributable to performance in 1995 prior to the Merger Date.

(b) After January 1, 1996, (i) Employee shall have an opportunity to receive such benefits as are provided to other comparable employees of the Employer performing similar services, including, but not limited to, if applicable, group life and health insurance benefits, pension and profit sharing benefits, deferred compensation benefits, vacations and expense reimbursements, and Employee shall be given service credit under each of Employer's benefit plans for all years of service for which Employee had received credit under the comparable plans of Chicago and North Western Railway Company, subject to reduction for any benefits to which such employee is entitled from Chicago and North Western Railway Company under its similar benefit plans (the similar benefit plans with respect to the Pension Plan for Salaried Employees of Union Pacific Corporation and Affiliates being the Chicago and North Western Transportation Company Supplemental Pension Plan and the Chicago and North Western Transportation Company Profit Sharing and Retirement Savings Program).

5. Payments on Termination of Employment. Notwithstanding the provisions of Section 2 hereof, Employee's employment hereunder may be terminated during the Employment Period upon the occurrence of any of the events described in clauses (i) through (vi) of this Section 5. If the termination event is described in clause (i) or (iv), the Employer shall pay to the Employee, within the five days immediately following the date of such termination of employment, a lump sum amount equal to the present value (calculated using a discount rate based on 120% of the applicable Federal rate under Section 1274(d) of the Internal Revenue Code of 1986, as amended from time to time) of the aggregate base salary and bonus otherwise payable to the Employee through the end of the Term under this Agreement (such base salary amount to be calculated using the greater of the base salary in effect immediately prior to the date hereof or the base salary in effect immediately prior to such termination event and such bonus amount to be calculated using the deemed annual bonus determined under Section 4(a) hereof). If the termination event is described in clause (ii), (iii), (v) or (vi), the Employee (or the Employee's estate, in case of clause (ii)) shall forfeit the Employee's right to any and all compensation and benefits the Employee would have been entitled to receive pursuant to this Agreement with respect to any employment period which would otherwise have followed the date of such termination, but, except for rights or benefits under the Employee's Change of Control Employment Agreement dated as of December 20, 1994, Employee shall not forfeit any rights or benefits Employee would otherwise receive or retain in the absence of this Agreement. The above-referenced events of termination are as follows:

(i) At any time by the Employer, without cause (as defined in Section 5(vi) hereof); or

(ii) In the event of Employee's death; or

(iii) By the Employer in the event Employee is unable to perform Employee's services hereunder for a continuous period of six (6) months by reason of Employee's physical or mental illness or incapacity, as determined in good faith by the Employer; or

(iv) At the option of the Employee following the occurrence of good reason, which, for purposes of this Agreement, shall mean a reduction by the Employer of the Employee's annual base salary or bonus;

(v) By the Employee, without good reason (as defined in Section 5(iv) hereof); or

(vi) At any time during the

Employment Period by the Employer, for cause, which, for purposes of this Agreement, shall mean any theft, conviction of a felony, dishonesty, fraudulent misconduct, grossly inadequate performance, willful malfeasance, willful or intentional negligence or a grossly negligent act, disclosure of trade secrets, gross dereliction of duty, a material breach of this Agreement by the Employee or other grave misconduct on the part of Employee.

6. Confidentiality. Employee agrees not to disclose in any manner information about the Employer obtained by Employee while employed by the Employer, other than information generally available to the public. Employee agrees to return immediately to the Employer all written material and other property containing such information, as well as any other property belonging to the Employer.

7. Noncompetition. Until the earlier of one year following the expiration of the Term or on the first anniversary of the termination of the Employee's active employment hereunder, Employee agrees that the Employee shall not, except as permitted by the Employer upon its prior written consent, engage in, be employed by, or in any way advise or act for, or have any financial interest in any business which is a competitor of the Employer.

8. Severability. This Agreement is to be governed by and construed according to the laws of the State of Nebraska, without regard to such state's choice of law rules. If any provision of this Agreement shall be held invalid and unenforceable for any reason whatsoever, such provision shall be deemed deleted and the remainder of the Agreement shall remain in effect and be valid and enforceable without such provision.

9. Amendments. This Agreement supersedes and replaces any other Agreement between the parties relating to employment, including the Change in Control Employment Agreement, signed by CNW and the Employee and dated as of December 20, 1994. Prior to the Merger Date, this Agreement may be modified only by a writing signed by the parties hereto. After the Merger Date, this Agreement may be modified only by a writing signed by the Employee and the Employer (or any successor thereto).

10. Continuing Liability. Unless this Agreement or Employee's employment hereunder is terminated in accordance with the express provisions hereof, the parties shall have no right to terminate this Agreement or the Employee's employment hereunder.

11. Waiver and Amendment of Three Agreements. The Employee, if a party thereto, agrees to amend (i) the Second Amended and Restated Stockholders Agreement, dated as of March 30, 1992, as amended, (ii) an agreement, dated as of June 21, 1993 among the parties to such Stockholders Agreement, and (iii) the Registration Rights Agreement, dated July 14, 1989, as amended (collectively, the "Three Agreements"), to provide that they shall terminate upon the "Effective Time" of the proposed merger between UP Rail, Inc. and Chicago and North Western Transportation Company (as "Effective Time" is defined in the Agreement and Plan of Merger by and among Union Pacific Corporation, UP Rail, Inc. and Chicago and North Western Transportation Company dated as of March 16, 1995). Further, the Employee agrees to waive (effective as of the Effective Time) any and all rights under each of the Three Agreements to which the Employee is a party.

12. The Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, set-off, counterclaim, recoupment, defense or other claim, right or action which the Employer may have against the Employee or others. In no event shall the Employee be obligated to seek other employment or take any other

action by way of mitigation of the amounts payable to the employee under any of the provisions of the Agreement, nor shall the amount of any payment hereunder be reduced by any compensation earned by the Employee as a result of employment by another employer.

IN WITNESS WHEREOF, both CNW and the Company have caused this Agreement to be executed by one of their duly authorized officers and Employee has executed this Agreement as of the dates specified below.

EMPLOYEE:

Date: _____, 1995 _____

CHICAGO AND NORTH WESTERN
TRANSPORTATION COMPANY:

Date: _____, 1995 By: _____

Title: _____

UNION PACIFIC RAILROAD COMPANY:

Date: _____, 1995 By: _____

Barbara Schaefer
Title: Vice President,
Human Resources

This agreement, release and waiver (the "Agreement") is made as of the _____ day of _____, 1995, by and between CHICAGO AND NORTH WESTERN TRANSPORTATION COMPANY, an Illinois corporation having its principal place of business in the State of Illinois, CHICAGO AND NORTH WESTERN RAILWAY COMPANY, a Delaware corporation having its principal place of business in the State of Illinois (collectively with their subsidiaries, and affiliates, the "Company"), UNION PACIFIC RAILROAD COMPANY, a Utah corporation having its principal place of business in the State of Nebraska (collectively with its subsidiaries and affiliates, "Union Pacific") and _____, a resident of _____ (the "Executive").

The Executive and the Company entered into a Change in Control Employment Agreement (the "Employment Agreement") dated as of December 20, 1994.

The Executive's employment with the Company shall terminate on the "Date of Termination", which shall be (i) the later of April 24, 1995, or the day following the last day of the revocation period described in paragraph 11 or (ii) such earlier date as may be agreed upon by the Company and the Executive; provided, however, that the Date of Termination shall in no event occur before the consummation of the "Offer" (as defined in the Merger Agreement (described in paragraph 2 hereof).

The Company and the Executive desire to settle all rights, duties and obligations between them, including without limitation all such rights, duties and obligations arising under the Employment Agreement or otherwise out of the Executive's employment by the Company.

In consideration of the representations, covenants and mutual promises set forth in this Agreement, it is hereby agreed as follows:

1. Benefits. Provided this Agreement has been executed and the revocation period described in paragraph 11 hereof has passed, the Company shall pay, or cause the Executive to be paid on the Date of Termination, the following amounts which have been limited in accordance with the provisions of paragraph 6(a) of the Employment Agreement as determined by the Company and agreed to by Executive (determined without regard to the payment specified in paragraph 2 below):
 - (a) with respect to all earned but unpaid salary and all accrued but unused 1995 vacation days through the Date of Termination \$ _____ ;
 - (b) with respect to the Chicago and North Western Transportation Company Bonus Plan (the "Bonus Plan") for the period from January 1, 1995 through the Date of Termination, \$ _____ ;
 - (c) with respect to all compensation previously deferred by or for the Executive together with any accrued earnings thereon under the Company's Excess Benefit Retirement Plan and the Executive Retirement Plan, \$ _____ as of December 31, 1994, not including additional amounts to be paid based upon earnings and contributions that may accrue subsequent thereto;
 - (d) with respect to all other payments and benefits described in the Employment Agreement, \$ _____ ; provided, however, that, for three years immediately following the Executive's termination of employment, the Executive will also be eligible to purchase from Union Pacific, at Union Pacific's cost, medical coverage comparable to that provided to active employees of Union Pacific.

2. Separate Payment. In addition to the amounts

specified in paragraph 1, the Executive shall receive a separate payment equal to the Extra Payment as defined in Section 5.4(a) of the Agreement and Plan of Merger by and among Union Pacific Corporation, UP Rail, Inc. and Chicago and North Western Transportation Company dated as of March 16, 1995 ("Merger Agreement") in the amount of \$

3. Release by Executive. In consideration of the foregoing, effective on the Date of Termination:
 - (i) Executive voluntarily, knowingly, and willingly releases and hereby discharges the Company and its respective officers, directors, partners, shareholders, employees and agents, and each of their predecessors, successors and assigns, from any and all charges, complaints, claims, promises, agreements, controversies, causes of action and demands of any nature, known or unknown, associated with Executive's employment with the Company (including but not limited to claims under the Employment Agreement) which Executive or Executive's executors, administrators, successors or assigns ever had, now have or hereafter can, shall or may have by reason of any matter, cause or things whatsoever arising to the time Executive signs this Agreement, except (A) the Executive does not hereby waive Executive's rights, if any, to indemnification under Section 5.9 of the Merger Agreement (but does waive any rights the Executive might otherwise derive from Section 5.4 of the Merger Agreement), (B) the Executive does not hereby waive or release rights to any benefits vested an accrued prior to the Date of Termination under any applicable plan of the Company or its affiliates and the Executive is not required to sign this Agreement in order to receive such vested benefits, (C) the Executive does not hereby waive or release rights to any rights to benefits under any plans of the Company not specifically addressed elsewhere herein under which he would be entitled to benefits in the ordinary course pursuant to the terms of such plans (including but not limited to the right to continued medical coverage under COBRA) and (D) the Executive does not hereby waive or release any rights with respect to the Executive's stock options set forth under Section 2.3 of the Merger Agreement.
 - (ii) Executive hereby resigns all offices and titles with the Company and its subsidiaries and affiliates.
 - (iii) Executive also releases, without limitation, any rights or claims arising prior to the time Executive signs this Agreement relating in any way to Executive's employment relationship with the Company, or the termination thereof (including, without limitation, any claim of wrongful discharge or breach of express or implied employment contract), and any rights or claims under any statute, including the Federal Age Discrimination in Employment Act, Title VII of the Civil Rights Act, the Americans with Disabilities Act, Sections 503 and 504 of the Rehabilitation Act of 1973, the Illinois Human Rights Act, the Municipal Code of Chicago or any other Federal, state or local law.
 - (iv) Executive represents that Executive has not filed any lawsuits or administrative complaints asserting any claims that are released in this paragraph 3. Executive further agrees that Executive shall not be entitled to any recovery in any proceeding against the Company or any of its subsidiaries or successors asserting any claims that are released in this paragraph 3 that are brought on his behalf.
 - (v) The Executive understands and agrees that, except as herein otherwise provided, the payments enumerated in this Agreement are all that the Executive will receive from the Company. The Executive will receive no further wage, vacation, severance or, except as herein otherwise provided,

other payments from the Company. The payments enumerated in this Agreement include consideration for the Executive signing this Agreement and fulfilling the promises contained herein. The parties agree that the payments enumerated in this Agreement are in excess of any payments or benefits to which the Executive may otherwise be entitled.

4. Stockholders Agreement. If a party thereto, Executive agrees to amend (i) the Second Amended and Restated Stockholders Agreement, dated as of March 30, 1992, as amended, (ii) an agreement, dated as of June 21, 1993 among the parties to such Stockholders Agreement, and (iii) the Registration Rights Agreement, dated July 14, 1989, as amended (collectively, the "Three Agreements") to provide that they shall terminate upon the "Effective Time" of the proposed merger between the UP Rail, Inc. and Chicago and North Western Transportation Company (as "Effective Time" is defined in the Merger Agreement). Further the Executive agrees to waive and release (effective as of the Effective Time) any and all rights under each of the Three Agreements to which the Executive is a party.
5. Cooperation. Executive agrees that, upon the request of the Company, Executive will cooperate in good faith in any litigation to which the Company is a party and as to which the Executive has relevant information or materials.
6. Full Statement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, nor shall the amount of any payment hereunder be reduced by any compensation earned by the Executive as a result of employment by another employer.
7. Confidentiality. Executive agrees not to disclose in any manner information about the Company or Union Pacific obtained by Executive while employed by the Company, other than information generally available to the public. Executive agrees to return immediately to the Company all written material and other property containing such information, as well as any other property belonging to the Company.
8. Tax Withholding. The Company's obligation to pay amounts hereunder are subject to its withholding obligations under applicable federal, state and local tax laws. The Executive is responsible for any tax liability associated with payments provided under this Agreement which under applicable law he is obligated to pay.
9. Consideration Period. The Executive confirms that the Executive has been given twenty-one (21) days to review and consider this Agreement before signing it. The Executive understands that Executive may use as much or as little of this period as Executive wishes prior to signing.
10. Consultation with Attorney. The Executive is advised, at his or her own expense, to consult with an attorney before signing this Agreement.
11. Revocation Rights. The Executive may revoke this Agreement within seven (7) business days of the date of the Employee's signature. Revocation can be made by delivering a written notice of revocation to Robert Schmiede at the Company. For this revocation to be effective, written notice must be received no

later than close of business on the seventh (7th) business day after the Executive signs this Agreement. If Executive revokes this Agreement, it shall not be effective or enforceable and Executive will not receive any payments or benefits described in paragraph 2. If the Executive does not revoke this Agreement, then, upon expiration of the revocation period provided in this paragraph 11, this Agreement shall immediately become irrevocable as to, and binding upon, the Executive.

12. Binding Agreement. Unless revoked by the Executive during the revocation period described in paragraph 11 hereon, this Agreement shall be binding on and inure to the benefit of the Company, its successors and assigns.

13. Miscellaneous.

(i) if all or any part of this Agreement is declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any portion of this Agreement not declared to be unlawful or invalid. Any paragraph or a part of a paragraph so declared to be unlawful or invalid shall, if possible, be construed in a manner which will give effect to the terms of such paragraph or part of a paragraph to the fullest extent possible while remaining lawful and valid.

(ii) This Agreement shall not be altered, amended, or modified except by written instrument executed by the Company and the Executive. A waiver of any term, covenant, agreement or condition contained in this Agreement shall not be deemed a waiver of any other term, covenant, agreement or condition and any waiver of any default in any such term, covenant, agreement or condition shall not be deemed a waiver of any later default thereof or of any other term, covenant, agreement or condition.

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

(iv) This Agreement forms the entire agreement between the parties hereto with respect to any severance payment and with respect to the subject matter contained in the Agreement. This Agreement shall supersede all prior agreements, promises, and representations regarding severance or other payments contingent upon termination of employment, whether in writing or otherwise.

(v) The captions of this Agreement are not part of the provisions hereof and shall not have any force or effect.

(vi) The provisions of this Agreement shall be interpreted and construed in accordance with the laws of the State of Illinois without regard to its choice of law principles.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the dates specified below.

Date: , 1995

Executive

CHICAGO AND NORTH WESTERN
TRANSPORTATION COMPANY

Date: , 1995

By:
Its:

CHICAGO AND NORTH WESTERN
RAILWAY COMPANY

Date: , 1995

By:
Its:

UNION PACIFIC
RAILROAD COMPANY

Date: , 1995

By:
Its:

BEFORE THE
INTERSTATE COMMERCE COMMISSION

Finance Docket No. 32133

UNION PACIFIC CORPORATION,
UNION PACIFIC RAILROAD COMPANY AND
MISSOURI PACIFIC RAILROAD COMPANY -- CONTROL --
CHICAGO AND NORTH WESTERN TRANSPORTATION COMPANY
AND CHICAGO AND NORTH WESTERN RAILWAY COMPANYAPPLICANTS' PETITION FOR DETERMINATION THAT
SECURITIES TERMS ARE JUST AND REASONABLE

The primary Applicants, Union Pacific Corporation ("UPC"), Union Pacific Railroad Company ("UPRR"), Missouri Pacific Railroad Company ("MPRR"), (1) Chicago and North Western Transportation Company ("CNWT") and Chicago and North Western Railway Company ("CNW"), hereby submit this petition for a determination that the terms of the proposed merger of UP Rail, Inc. ("UP Rail"), an indirect wholly-owned subsidiary of UPC, into CNWT are just and reasonable.

This petition is supported by the verified statement of J. Tomilson Hill of The Blackstone Group, L.P., attached as Exhibit A hereto, and by the Offer to Purchase dated March 23, 1995, which is attached as Exhibit B hereto.

BACKGROUND

The Commission authorized common control of UP and CNW in Decision No. 25 in this proceeding, served March 7, 1995. That decision is scheduled to become effective on April 6, 1995. No party sought a stay of

- 1 UPRR and MPRR are referred to collectively as "UP." UPC and its subsidiaries generally are referred to as "Union Pacific."

the decision within the ten-day period provided for in 49 C.F.R. SECTION 1115.3(f).

On March 7, 1995, following the issuance of Decision No. 25, Union Pacific announced that it had decided to explore a variety of options for the further coordination of UP and CNW, including a possible acquisition.

Subsequently, there were discussions between the companies concerning a possible acquisition, which proved fruitful, and on March 10, 1995, Union Pacific and CNWT announced that they had reached agreement in principle on an acquisition by Union Pacific of all CNWT stock at a price of \$35 per share. A copy of an SEC Schedule 13D embodying this announcement was filed in this Docket on the same day.

UPC, UP Rail, and CNWT entered into an Agreement and Plan of Merger dated as of March 16, 1995 ("the Merger Agreement"). The Merger Agreement was filed in this Docket on March 17, 1995. A text of the Merger Agreement is Annex I to Exhibit B hereto.

The Merger Agreement provides that UP Rail will make a tender offer for 100% of the common stock of CNWT at a price of \$35 per share ("the Tender Offer"). Consummation of the Tender Offer is subject to various conditions, including (a) that the shares tendered, together with the CNWT stock already owned by UP Rail and UPC, constitute a majority of the CNWT stock, and (b) that Decision No. 25 has become final and effective. Following consummation of the Tender Offer, UP Rail is to be merged into CNWT, in a transaction ("the Merger") in which all remaining (i.e., non-tendering) shareholders of

CNWT will receive \$35 per share in cash -- the same price paid to tendering shareholders in the Tender Offer.

The Tender Offer was commenced on March 23, 1995, and is scheduled to expire on April 19, 1995. A copy of the Offer to Purchase (Exhibit B hereto) was previously filed in this Docket on March 24, 1995.

On March 10 and 13, 1995, several purported class action lawsuits were filed on behalf of CNWT shareholders against CNWT, CNWT's directors, UPC and certain other parties in the Delaware Court of Chancery. An amended complaint was filed on March 28. The amended complaint contends, among other things, that the purchase price for CNWT's stock was inadequate, that CNWT's directors breached their fiduciary duties in entering into the Merger Agreement, and that the Tender Offer materials fail to disclose certain alleged facts which plaintiffs contend are material. Applicants believe that these suits are entirely without merit, and intend to seek their dismissal on the ground that they infringe upon the Commission's exclusive jurisdiction over railroad control transactions.

THIS PETITION

By this petition, the primary Applicants are requesting that the Commission determine that the \$35-per-share price to be paid to CNWT shareholders in the Merger is just and reasonable. Because effectuation of the Merger is an important step in fully realizing the substantial competitive and efficiency benefits of the integration of the UP and CNW railroads, Applicants are requesting that the Commission give this petition expedited consideration under the modified procedure (49 C.F.R. pt. 1112). A suggested procedural schedule is set forth at pages 14-16 below.

The Commission's authority -- and indeed obligation -- to determine whether the securities terms of a railroad control transaction are just and reasonable is well-established. The U.S. Supreme Court held in *Schwabacher v. United States*, 334 U.S. 182, 197-99 (1948), that the Commission must decide the fairness of the securities terms of a control transaction that falls within its jurisdiction.⁽²⁾ Any other remedies to which securityholders might otherwise have been entitled, such as state-law appraisal rights, are pre-empted pursuant to 49 U.S.C. SECTION 11341(a). *Id.* at 201; *Norfolk & Western Ry. v. ATDA*, 499 U.S. 117, 130-31 (1991).⁽³⁾

The *Schwabacher* Court noted that the Commission's focus, in determining whether the securities terms of a control transaction are just and reasonable, is "to see that minority interests are protected." 334 U.S. at 201. The Commission has often made this same

2 See also, e.g., Finance Docket No. 31035, Merger -- Baltimore & Ohio R.R. & Chesapeake & Ohio Ry., ("B&O/C&O"), Decision served Mar. 2, 1988, p. 3 ("where the Commission exercises its jurisdiction to approve and authorize a railroad merger, pursuant to sections 11343-11348, it has an obligation to pass upon all aspects of the transaction relating to capital liabilities"). Since the enactment of the Staggers Act, this requirement has applied only to transactions that, as here, involve two or more Class I carriers. See *Norfolk & Western Ry. -- Purchase -- Illinois Terminal R.R.*, 363 I.C.C. 882, 890-92 (1981).

3 See also, e.g., *Bruno v. Western Pacific R.R.*, 498 A.2d 171 (Del. Ch. 1985), *aff'd mem.*, 508 A.2d 72 (Del. 1986), *cert. denied*, 482 U.S. 927 (1987); *Altman v. Central of Georgia Ry.*, 488 F.2d 1302 (D.C. Cir. 1973); *Suffin v. Pennsylvania R.R.*, 276 F. Supp. 549 (D. Del. 1967), *aff'd*, 396 F.2d 75 (3d Cir. 1968), *cert. denied*, 393 U.S. 1062 (1969); *Manufacturers Life Insurance Co. v. Missouri Pacific R.R.*, Civ. No. 91-126-SLR, 1992 U.S. Dist. LEXIS 19612 (D. Del. Dec. 10, 1992).

point. See, e.g., Union Pacific Corp., Pacific Rail System, Inc., & Union Pacific R.R. -- Control -- Missouri Pacific Corp. & Missouri Pacific R.R. ("UP/MP/WP"), 366 I.C.C. 462, 635 (1982), aff'd in relevant part sub nom. Southern Pacific Transportation Co. v. ICC, 736 F.2d 708, 725-27 (D.C. Cir. 1984), cert. denied, 469 U.S. 1208 (1985) ("In appraising any transaction affecting the rights of stockholders, it is incumbent upon us to see that the interests of the minority stockholders are protected and that the overall proposal is just and reasonable to those stockholders . . ."); Union Pacific Corp., Union Pacific R.R. & Missouri Pacific R.R. -- Control -- Missouri-Kansas-Texas R.R. ("UP/MKT"), 4 I.C.C.2d 409, 515-16 (1988), petition for review dismissed sub nom. RLEA v. ICC, 883 F.2d 1079 (D.C. Cir. 1989); Missouri Pacific R.R. -- Merger -- Missouri Pacific R.R. ("MP Merger"), 360 I.C.C. 6, 16 (1978).

It has also repeatedly been emphasized that Schwabacher stands for the proposition that the mere fact that minority shareholders "hold out," and do not follow the majority in tendering or exchanging their shares, does not entitle them to any premium. E.g., MP Merger, 360 I.C.C. at 30; Fried v. United States, 212 F. Supp. 886, 890 (S.D.N.Y. 1962) (three-judge court), aff'g Erie R.R. Merger, Delaware, Lackawanna & Western R.R. ("Erie Lackawanna"), 312 I.C.C. 185 (1960), Stott v. United States, 166 F. Supp. 851, 859 (S.D.N.Y. 1958) (three-judge court), aff'g Louisville & Nashville R.R. Merger ("L&N"), 295 I.C.C. 457 (1957).

Generally, the Commission has addressed the issue of whether the securities terms of a merger or other control transaction are just and reasonable at the same time as it has determined whether the transaction itself is in the public interest. E.g., UP/MP/WP; UP/MKT; MP Merger. Here, the control issue was presented and decided before it was known whether there would be any further acquisition of CNWT securities by Union Pacific, or what the terms of such a securities acquisition would be. But this sequence of events does not diminish the Commission's authority to make a just and reasonable determination at this time through a supplemental decision in this proceeding.(4) Indeed, exactly such a procedure was contemplated in the original control application. See UP/CNW-6, Jan. 29, 1993, p. 14, noted in Decision No. 5, served Feb. 26, 1993, p. 4, 58 Fed. Reg. 11626, 11627 (1993).

Applicants are requesting a just and reasonable determination by the Commission, rather than attempting to carry out the Merger through an exemption. Applicants are clearly entitled to obtain a just and reasonable determination on the merits.(5) The Commission has

4 Cf., e.g., Suffin, supra, 276 F. Supp. at 553 (Commission had exclusive authority to determine whether the terms of an exchange of securities undertaken to satisfy a condition to an ICC-approved merger were just and reasonable).

5 It is clear that Applicants are entitled to continue to proceed under the regulatory provisions of the Act, rather than by way of an exemption. See Decision No. 25, p. 63 (rejecting SP's argument that Applicants in the UP/CNW control case should have been granted an exemption for coordinations that would give UP control over CNW; "Applicants are entitled to have our decision made in the formal application context"); cf. Ex Parte No. 282 (Sub-No. 18), Railroad Consolidation Procedures: Class Exemption for Transactions Within a Corporate Family ("Rulemaking"), Decision served Aug. 6, 1992, p. 5 ("The partial revocation remedy, enabling a bypass of the class exemption procedure in favor of the SECTION 11344-11345 application process, would remain available."); Finance Docket No. 31387, Canadian National Ry. -- Partial Revocation of Class

(continued...)

extensive experience in determining whether the securities terms of Class I railroad control transactions are just and reasonable, and is the appropriate forum for resolving such issues. Moreover, for the Commission to determine the matter will have the benefit of providing certainty as to the pre-emption of state-law remedies.(6)

5(...continued)

Exemption -- Lease From Grand Trunk Western R.R., Decision served Jan. 27, 1989, pp. 1-2 (partially revoking corporate family class exemption to guarantee applicability of Section 11341(a) pre-emption); Union Pacific R.R. & Missouri Pacific R.R. -- Trackage Rights Over Lines of Chicago & North Western Transportation Co. Between Fremont, NE/Council Bluffs, IA, & Chicago, IL, 7 I.C.C.2d 177, 180-81 (1990). These more recent decisions can only be understood, in Applicants' view, to supersede the 1981 decision in Finance Docket No. 29757, Colorado & Southern Ry. -- Merger Into Burlington Northern R.R. -- Exemption & Request for Determination of Fairness ("Colorado & Southern"), Decision served Dec. 31, 1981, in which the Commission declined a request that it partially revoke the corporate family class exemption to the extent necessary to make a just and reasonable determination. Colorado & Southern is in any event fundamentally different from this case, since there the applicants wished to carry out the transaction on an exempt basis, whereas here there has already been a full-scale control proceeding on the merits. See *id.*, p. 5 (finding it inappropriate that the Commission should "determine a substantive issue in a proceeding and at the same time exempt it from review"); see also B&O/C&O, *supra*, p. 4 (stressing that in Colorado & Southern, the Commission had "found it unnecessary to review and approve a railroad merger").

- 6 As already noted (p. 5 & n.3 *supra*), all state-law and other remedies are pre-empted when the Commission exercises its control authority under 49 U.S.C. SECTIONSECTION 11343, *et seq.* On the other hand, it is less clear whether there is a pre-emption when a control transaction takes place pursuant to a Section 10505 exemption. In two decisions, the Commission has held that when a merger is carried out pursuant to the corporate-family class exemption, there is no Section 11341(a) pre-emption, and minority shareholders can therefore invoke state-law appraisal remedies. Colorado & Southern, *supra*; B&O/C&O, *supra*. See also, e.g., Railroad Consolidation Procedures -- Trackage Rights Exemption, 1 I.C.C.2d 270, 279 (1985) (no Section 11341(a) pre-emption for consolidation transactions exempted under Section 10505). But more recent
(continued...)

In addition, Applicants believe it is clear that the Merger does not qualify for an exemption.(7)

THE BASIS FOR A JUST AND REASONABLE DETERMINATION

6(...continued)

Commission authority rejects the rationale of these decisions, and holds that control transactions exempted under Section 10505 do give rise to Section 11341(a) pre-emption. The latest such holding is in Decision No. 25 in this proceeding, at pp. 63-64, where the Commission stated that it disagreed

"with SP's argument that the section 11341(a) immunity provision would not apply in the section 10505 exemption context. The literal terms of the section 11341(a) immunity provision indicate that it is applicable to any transaction 'approved or exempted by the

Commission under this subchapter' (i.e., under subchapter III of Chapter 113 of Subtitle IV of Title 49, United States Code). The Commission, however, 'has consistently taken the position that [the section 11341(a) immunity provision] applies to authorizations by exemption [under section 10505] as well as to approvals.' Delaware and Hudson Railway Co. -- Lease and Trackage Rights -- Springfield Terminal Ry. Company, Finance Docket No. 30965 (Sub-Nos. 1 and 2) (ICC served Apr. 21, 1993) (at 2 n.4)."

(Bracketed material in original.) See also, e.g., Finance Docket No. 30965 (Sub-Nos. 1 & 2), Delaware & Hudson Ry. -- Lease & Trackage Rights Exemption -- Springfield Terminal Ry., Decision served Mar. 16, 1992, p. 6.

- 7 The Merger does not fall within the class exemption for control transactions within a corporate family (49 C.F.R. SECTION 1180.2(d)(3)) because it is not distinct from the acquisition of CNWT through the Tender Offer. See Finance Docket No. 30765, Missouri Pacific R.R. -- Control & Consolidation Exemption -- Jefferson Southwestern R.R., Decision served Mar. 19, 1986, p. 1 (consolidation must be "distinct from the acquisition of exclusive control" in order to be "considered a transaction within a corporate family"); Rulemaking, p. 5 & n.14 (same). Nor does the Merger qualify for a transaction-specific exemption under Section 10505; a just and reasonable determination has always been a normal -- and required -- component of every control transaction involving Class I railroads, and the exercise of the Commission's regulatory authority cannot have been rendered unnecessary simply because the sequence of events has been different here.

The facts overwhelmingly support a determination that the \$35-per-share purchase price for CNWT stock is just and reasonable. Those facts are set forth at length in the Offer to Purchase and the verified statement of Mr. Hill. Briefly, the following are among the key considerations:

* CNWT shareholders will receive a large premium over the market price of their stock prior to the announcement of the purchase terms. The price of \$35 per share represents a 34% premium over the market price of \$26.125 on March 9, 1995, the last full day of trading before the \$35-per-share price was announced; a 41% premium over the market price of \$24.875 on March 6, 1995, the last full day of trading before Decision No. 25 was issued and Union Pacific announced that it was considering various possible steps including an acquisition of CNWT; and a 49% premium over the average CNWT share price during the thirty days ending on March 9, 1995. Offer to Purchase, p. 43; Hill V.S., p. 8. Payment of a premium price has been found to be compelling evidence that securities terms are just and reasonable. See, e.g., UP/MP/WP, 365 I.C.C. at 637; UP/MKT, 4 I.C.C.2d at 516.

* The acquisition price and the various other terms of the Merger Agreement were negotiated at arm's-length between independent parties. The members of CNWT's board of directors unanimously approved the acquisition terms (with Richard K. Davidson, President of UPC, not participating). The CNWT board members (Mr. Davidson excepted) have no affiliation with Union Pacific. The arm's-length negotiations between CNWT and Union Pacific led Union Pacific to increase its proposed purchase price twice. See Offer to Purchase, pp. 5-6. Such arm's-length negotiations have many times been held to be crucial evidence that securities terms are just and reasonable. See, e.g., UP/MP/WP, 366 I.C.C. at 638; Norfolk Southern Corp. -- Control -- Norfolk & Western Ry. & Southern Ry. ("NS"), 366 I.C.C. 171, 232 (1982); CSX Corp. -- Control -- Chessie System, Inc. & Seaboard Coast Line Industries, Inc. ("CSX"), 363 I.C.C. 518, 594

(1980), aff'd sub nom. Brotherhood of Maintenance of Way Employees v. ICC, 698 F.2d 315 (7th Cir. 1983); Newrail Co. -- Purchase -- Western Pacific R.R. ("Newrail"), 354 I.C.C. 885, 899-901 (1979); Great Northern Pacific & Burlington Lines, Inc. -- Merger -- Great Northern Ry., 331 I.C.C. 228, 260 (1967), aff'd sub nom. United States v. United States, 296 F. Supp. 853, 872 (D.D.C. 1968) (three-judge court), aff'd sub nom. United States v. ICC, 396 U.S. 491, 516-22 (1970); Seaboard Air Line R.R. -- Merger -- Atlantic Coast Line R.R. ("Seaboard Coast Line"), 320 I.C.C. 122, 192 (1963), aff'd sub nom. Florida East Coast Ry. v. United States, 259 F. Supp. 993 (M.D. Fla. 1966) (three-judge court), aff'd mem., 386 U.S. 544 (1967); Erie Lackawanna, 312 I.C.C. at 188.

* The CNWT board received the advice of, and a written fairness opinion from, The Blackstone Group ("Blackstone"). See Offer to Purchase, pp. 5-14. Blackstone is an investment banking firm with extensive expertise in the area of railroad securities and an in-depth knowledge of CNWT's operations based on, among other things, the participation of Blackstone's affiliate, Blackstone Capital Partners L.P., in the leveraged buyout of CNWT in 1989. See Hill v.S., pp. 1-

2. Blackstone's formal written opinion as to the fairness of the acquisition terms to CNWT shareholders is attached to Mr. Hill's verified statement.(8) The analyses and fairness opinions of financial experts of this kind have repeatedly been cited by the Commission as an important factor in concluding that the securities terms of a transaction are just and reasonable. See, e.g., UP/MKT, 4 I.C.C.2d at 515-16; UP/MP/WP, 366 I.C.C. at 633-34; NS, 366 I.C.C. at 232; CSX, 363 I.C.C. at 595; Newrail, 354 I.C.C. at 901; Illinois Central Gulf R.R. -- Acquisition -- Gulf, Mobile & Ohio R.R., Illinois Central R.R. ("ICG"), 338 I.C.C. 805, 816 (1971), aff'd sub nom. Missouri Pacific R.R. v. United States, 346 F. Supp. 1193 (E.D. Mo. 1972) (three-judge court), & sub nom. Kansas City Southern Ry. v. United States, 346 F. Supp. 1211 (W.D. Mo. 1972) (three-judge court), aff'd mem., 409 U.S. 1094 (1973); Seaboard Coast Line 320 I.C.C. at 192; Norfolk & Western Ry. Merger, Virginian Ry., 307 I.C.C. 401, 429 (1959).

* As Mr. Hill explains in his verified statement, Blackstone considered, in arriving at the conclusion that the purchase price for the CNWT stock was fair to CNWT shareholders, a range of pertinent factors,(9) including: CNWT's likely earnings power, as reflected in historical earnings and projected future earnings; recent market prices and price/earnings ratios for CNWT stock, and for the stock of comparable

8 Union Pacific, for its part, was advised by CS First Boston, an investment banking firm with similar expertise, which provided an opinion that the terms of the acquisition are fair to UPC shareholders. See Offer to Purchase, pp. 7, 14-16.

9 CS First Boston considered similar factors in advising Union Pacific that the acquisition terms were fair to UPC shareholders. See Offer to Purchaser, pp. 14-16.

companies; the potential synergies of a UP/CNW combination; the terms of comparable transactions; and the risks and uncertainties associated with alternative possible transactions.(10) The Commission has found in many past cases that it is proper to analyze just such factors in order to arrive at a conclusion that the securities terms of a transaction are just and reasonable. See, e.g., UP/MKT, 4 I.C.C.2d at 515-16; Chicago, Milwaukee, St. Paul & Pacific R.R. -- Reorganization -- Acquisition By Grand Trunk Corp., 2 I.C.C.2d 161, 218 (1984); UP/MP/WP, 366 I.C.C. at 633-38; MP Merger, 360 I.C.C. at 16-18; Newrail, 354 I.C.C. at 901; ICG, 338 I.C.C. at 816-17; Erie Lackawanna, 312 I.C.C. at 188, 236; L&N, 295 I.C.C. at 493-500.

In sum, Applicants submit that the detailed discussion of fairness issues in the Offer to Purchase (pp. 5-14), together with the verified statement of Blackstone's Mr. Hill, amply support a finding that the \$35 per share purchase price for CNWT is just and reasonable.

SUGGESTED PROCEDURAL SCHEDULE

Applicants would suggest that the Commission employ the modified procedure (49 C.F.R. pt. 1112) for this follow-on proceeding. The modified procedure has

10 Specifically, Blackstone concluded that, given Union Pacific's already-existing ownership interest in CNWT, the close traffic and financial relationships between the companies, the Commission's March 7, 1995 issuance of Decision No. 25, and the need for other rail acquirers to obtain control authority from the Commission, "viable competition to acquire [CNWT] was unlikely to emerge." Offer to Purchase, p. 12. In fact, no other bidders have emerged since the proposed acquisition was announced on March 10, 1995. See *id.*, p. 8.

been used in similar proceedings, and its use has been upheld by the courts. See, e.g., Finance Docket No. 29594, *Kansas City Southern Ry. -- Stock*, Decision served Feb. 8, 1982, p. 1, *aff'd sub nom. Laird v. ICC*, 691 F.2d 147, 154-55 (3d Cir. 1982), cert. denied, 461 U.S. 927 (1983).

Applicants would suggest that a notice of this proceeding be published in the Federal Register. Federal Register publication is the standard means by which public notice is normally given of all aspects of proposed Class I railroad control transactions, and it is clear that such publication provides notice to all interested persons as a matter of law. See, e.g., *Friends of Sierra R.R. v. ICC*, 881 F.2d 663, 667-68 (9th Cir. 1989), cert. denied, 493 U.S. 1093 (1990); Finance Docket No. 31058, *Mendocino Coast Ry. -- Acquisition Exemption -- Assets of California Western R.R.*, Decision served Dec. 28, 1987, p. 5. Applicants are also serving a copy of this petition on all active parties in this proceeding and on counsel for the plaintiffs in the Delaware shareholder suits, and will serve a copy on any known CNWT shareholders who do not tender their shares in the Tender Offer.

The Federal Register notice would provide a summary of this petition, advise interested persons that they could obtain a copy of the full petition from Applicants' attorneys, and set forth a schedule for written submissions. The following schedule appears appropriate:

30 days from Federal Register publication	Submission of written comments by any interested person
45 days from Federal Register publication (or such earlier date as they may submit them)	Submission of reply by Applicants

The matter could then be decided promptly thereafter.

Applicants doubt that there will be any need or justification for appreciable discovery. If interested parties do appear and seek discovery, Applicants will respond expeditiously, attempt to resolve any disputes informally, and present to the Commission for prompt decision any disputes that cannot be resolved informally.

Expedited handling of this matter is in keeping with the Commission's new six-month procedural schedule

for resolving all issues (including, among many others, securities fairness) in the BN/Santa Fe proceeding. Moreover, the need for expedition in this matter is apparent. The Merger is an important step in achieving the complete integration of the UP and CNW railroads, and the attendant enhancement of competition and reduction in costs and overheads. Based on a very full record built over a two-year period, which included extensive evidence concerning the benefits of a full integration of the railroads,(11) the Commission has found that the common control of these railroads is clearly in the public interest. The present matter should be brought to a conclusion expeditiously so that there will be no unnecessary delay in achieving the major public benefits of a UP/CNW combination.

Respectfully submitted,

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11 See UP/CNW-127, pp. 62-66 (collecting record citations).

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April 4, 1995

CERTIFICATE OF SERVICE

I, Michael L. Rosenthal, certify that on this 4th day of April, 1995, I caused a copy of the foregoing document to be served by first-class mail on all parties of record or their counsel, and on counsel for the plaintiffs in the shareholder suits filed in the Court of Chancery of the State of Delaware, as follows:

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/s/ Michael L. Rosenthal
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VERIFIED STATEMENT OF J. TOMILSON HILL

My name is J. Tomilson Hill. I am a General Partner of Blackstone Group Holdings, L.P. ("BGH"), an affiliate of The Blackstone Group L.P. ("Blackstone"). I joined Blackstone in 1994. I have more than 20 years of experience in investment banking, starting my career at The First Boston Corporation in 1973. I was co-founder of the Mergers and Acquisitions Department of First Boston and was later head of the mergers Department at Smith Barney. I joined Lehman Brothers as a partner in 1982, serving as co-head and later head of Mergers and Acquisitions, and then as co-head and head of Investment Banking. I became Co-Chief Executive Officer of Lehman Brothers in 1990 and in early 1993 became Co-President and Co-COO of Shearson Lehman Brothers Holdings Inc. I am a graduate of Harvard College (1970) and the Harvard Business School (1973). I was the lead Blackstone person advising Chicago and North Western Transportation Company ("CNW") in the matter discussed below.

Blackstone is a private investment banking firm that was founded in 1985 by Mr. Peter G. Peterson, Chairman, and Mr. Stephen A. Schwarzman, President and Chief Executive Officer. Blackstone is engaged in providing an array of financial advisory services to major corporate clients with respect to mergers and acquisitions, financing transactions and strategic matters. Since its founding, Blackstone has advised on transactions with a value of in excess of \$100 billion.

Blackstone Capital Partners L.P., an affiliate of Blackstone, led a leveraged, going-private transaction of CNW Corporation, a predecessor of CNW, in 1989, and Blackstone has since that time performed various financial advisory services for CNW.

Pursuant to a letter agreement dated December 14, 1994, CNW and Blackstone confirmed that Blackstone had been retained, effective November 29, 1994, to act as CNW's exclusive financial advisor with respect to various matters, including certain matters affecting CNW arising out of Union Pacific Corporation's ("Union Pacific") then proposed acquisition of Santa Fe Pacific Corporation and an evaluation of strategic alternatives to maximize the long-term shareholder value for CNW.

Pursuant to a letter agreement dated March 3, 1995, which was entered into in addition to the December 14, 1994 letter agreement, CNW and Blackstone confirmed that Blackstone had been retained to act as CNW's exclusive financial advisor with respect to a potential sale of, investment in, recapitalization by, strategic alliance with or joint venture involving CNW.

On March 7, 1995, after the Interstate Commerce Commission (the "ICC") issued a written opinion approving Union Pacific's control of CNW, Union Pacific initiated discussions with CNW concerning, among other things, the possibility of exploring the acquisition by Union Pacific of CNW. Union Pacific indicated that it would be prepared to explore an acquisition of CNW at a price in the lower \$30 per Share range.

On March 9, 1995, a special meeting of the CNW Board of Directors (with Mr. Davidson absent due to his

status as President of Union Pacific) was held to consider the possibility of a transaction whereby CNW would be acquired by Union Pacific. I was present at that meeting, and on behalf of Blackstone, presented certain materials to the Board presenting a range of values for CNW Shares of Common Stock, par value \$0.01 (the "Shares"), using several different analyses and methodologies. After considering various factors, including the advice of Blackstone, it was the consensus of the CNW Board of Directors that management of CNW enter into negotiations with Union Pacific only if Union Pacific were to make an offer which exceeded the lower \$30 per Share range.

During a recess in the meeting, Drew Lewis, Chairman and Chief Executive Officer of Union Pacific, contacted Robert Schmiede, Chairman, President and Chief Executive Officer of CNW, and indicated that Union Pacific was prepared to pursue discussions with CNW concerning a possible transaction at a price of \$34 per Share.

The CNW Board reconvened to consider the interest expressed by Union Pacific, and the Board, again with the advice of Blackstone and others, determined that although the Board might be willing to pursue a transaction at \$34 per Share, Mr. Schmiede should attempt to increase the per Share consideration. During another recess in the meeting, Mr. Schmiede advised Mr. Lewis that the CNW Board was prepared to negotiate a transaction for the sale of CNW, and after further discussion, the two men reached an understanding for a transaction in which Union Pacific would acquire 100% of CNW Shares at a price of \$35 per Share, subject to certain conditions, such as the approval of CNW's Board of Directors.

The CNW Board reconvened, and Blackstone rendered an oral opinion that the cash consideration of \$35 per Share of CNW stock was fair to the holders of CNW Shares from a financial point of view. The Board, after considering various factors, including the fairness opinion of Blackstone, approved a transaction in which Union Pacific would acquire 100% of the CNW Shares for \$35 per Share in cash, subject to the negotiation and execution of a definitive merger agreement. On March 10, Union Pacific and CNW issued a joint press release regarding their discussions.

The CNW Board of Directors requested Blackstone's written opinion with respect to the fairness from a financial point of view to the holders of Shares of CNW of the cash consideration to be received by such holders pursuant to the Agreement and Plan of Merger dated as of March 16, 1995 (the "Merger Agreement"), among CNW, Union Pacific, and UP Rail, Inc. ("UP Rail"), an indirect wholly owned subsidiary of Union Pacific.

The Merger Agreement provides, among other things, that UP Rail will make a cash tender offer for all Shares of CNW at \$35.00 per Share (the "Offer"), and that following consummation of the Offer, UP Rail will merge with CNW in a transaction (the "Merger") in which all outstanding Shares of CNW, other than Shares held by Union Pacific and its subsidiaries, will be converted into the right to receive \$35.00 per Share in cash.

At a meeting of the CNW Board of Directors (with Mr. Davidson absent due to his status as President of Union Pacific) on March 16, 1995, in which I participated, Blackstone reviewed for the Board the materials that it had presented at the March 9, 1995 meeting, confirmed that the materials should be considered final, and delivered a written fairness opinion to the CNW Board of Directors. A copy of this opinion, setting forth the assumptions made and matters considered and limitations is attached to this statement. The Merger Agreement was executed in the evening of March 16, 1995.

Analyses Conducted

Blackstone reviewed certain publicly available information relating to the business, financial condition and operations of CNW, and certain financial and other

information, including financial forecasts, furnished to Blackstone by CNW that is not publicly available. Blackstone met with certain senior officers of CNW to discuss the operations, financial condition, history and prospects of CNW's businesses. In conducting this analysis, Blackstone considered the terms of the Merger Agreement; stock price data, the historical and current financial position and the historical and projected cash flows and results of operations of CNW; historical financial information and stock price data with respect to certain public companies with operations that Blackstone considered comparable to those of CNW; and prices paid in certain other business combinations involving companies with operations that Blackstone considered comparable to those of CNW.

In reviewing valuations of the Shares, Blackstone utilized the operating projections outlined in CNW's 5-Year Business Plan (the "Business Plan"). Blackstone compared these projections with CNW's past performance. Blackstone reviewed CNW's stock price since the company's initial public offering in April, 1992. In performing the analyses described below, CNW's 1994 operating results were adjusted to eliminate the effects of certain non-recurring charges. References to the "current" stock price included in the following refer to the Share price immediately prior to the meeting of CNW's board of directors of March 9, 1995.

Trading Comparables Valuation

Blackstone reviewed the multiples of earnings at which the shares of the following comparable public companies trade: Burlington Northern Inc., Conrail, Inc., CSX Corporation, Illinois Central Corporation, Norfolk Southern Corporation, Union Pacific and Wisconsin Central Transportation Corp. Based on the trading multiples of operating results for the trailing twelve months of such companies, Blackstone applied benchmark multiples of 6.5x-7.5x to CNW's 1994 earnings before interest, taxes, depreciation and amortization ("EBITDA") and 8.5x-10.0x to CNW's 1994 earnings before interest and taxes ("EBIT") to arrive at a range of implied per Share values of \$21.31-\$28.12 and \$19.61-\$27.13, respectively. Blackstone also applied benchmark multiples of 1994 earnings per Share and estimated 1995 earnings per Share of 12.5x-13.0x and 10.5x-11.0x, respectively, to arrive at a range of implied per Share values of \$24.13-\$25.09 and \$26.25-\$27.50, respectively. These analyses indicated a range of implied value of \$23.00 to \$27.00 per Share.

Precedent Transactions Valuation

Blackstone reviewed the multiples of earnings paid by acquirors in recent transactions in the railroad industry, but noted that such comparisons had to be qualified by certain factors. In the proposed acquisition of Santa Fe Pacific Corporation by Burlington Northern Inc., the price was substantially higher than the original offer due to the highly competitive bidding which occurred between Union Pacific and Burlington Northern Inc. The proposed Illinois Central Corporation transaction with Kansas City Southern Industries, Inc., which was terminated, involved an auction with a number of interested parties. In the Kansas City Southern Industries, Inc./Midsouth Corporation transaction, Midsouth offered routes that were attractive for a number of parties, and its small size enabled financial buyers to compete in the bidding. In the leveraged acquisition of CNW's predecessor by a Blackstone affiliate, the transaction was consummated in light of a competing hostile offer and at a time of significant liquidity in the financing markets.

Blackstone also noted that, based on a preliminary review with CNW's management of other potential strategic buyers, viable competition to acquire CNW was unlikely to emerge. This view was based upon Union Pacific's existing ownership stake in CNW, the significant business relationships between Union Pacific and CNW, and the ICC's March 7, 1995 approval of the joint application by Union Pacific and CNW to permit the common control of CNW and Union Pacific (the "Control Application"), which would likely strengthen Union Pacific's position relative to other potential railroad industry bidders since the acquisition of

CNW by any other railroad would be subject to future ICC approval.

Blackstone further noted that in the last major railroad transaction involving a large existing shareholder, Canadian Pacific Ltd.'s acquisition of the remaining 44% of Soo Line Railroad Company ("Soo"), the original offer was at an approximately 8% premium to Soo's stock price, which was subsequently increased to a 19% premium. With the foregoing qualifications, based on such acquisitions in the railroad industry, Blackstone estimated a range of implied per Share values of (i) \$28.12-\$38.35 based on multiples of EBITDA of 7.5x-9.0x, (ii) \$32.15-\$39.67 based on multiples of EBIT of 11.0x-12.5x, and (iii) \$28.95-\$38.60 based on multiples of net income of 15.0x-20.0x. These were calculated by applying the benchmark multiples to CNW's 1994 operating results.

On March 7, 1995, Union Pacific filed an amendment to its Schedule 13D with the Securities and Exchange Commission disclosing the receipt of the ICC's approval of the Control Application. Prior to such date, the per Share price was 24-7/8. Hence, the Union Pacific offer of \$35.00 per Share represents a 41% premium over such price. On March 10, 1995, CNW and Union Pacific issued a press release announcing that Union Pacific had agreed to acquire CNW, subject to certain conditions. The \$35.00 per Share price represents a 49% premium over the average per Share price for the 30-day period preceding this press release.

Discounted Value of Future Stand-Alone Earnings Per Share

The projections of earnings per Share in CNW's Business Plan were \$2.50 in 1995, \$3.01 in 1996, \$3.82 in 1997, \$4.63 in 1998 and \$5.60 in 1999. Based on these projections, Blackstone estimated a matrix of per Share values by discounting potential future Share prices of CNW. These were estimated assuming a range of future price/earnings multiples of 9.0x-12.0x and equity discount rates of 13%-17%. Based on projected earnings per Share for 1997, this analysis indicated a low per Share value of \$25.12, assuming the lowest multiple and highest discount rate, and a high per Share value of \$35.90, assuming the highest multiple and lowest discount rate. The same analysis based on the projected earnings per Share for 1999 indicated a range of \$26.90 to \$41.22 per Share.

Stand-Alone Unlevered Discounted Cash Flow Valuation

Blackstone also conducted an analysis of the stand-alone discounted cash flow valuations of CNW using unlevered cash flows and assuming the projections in CNW's Business Plan. Based on a capital asset pricing model ("CAPM") analysis, Blackstone utilized a range of 11%-14% for CNW's weighted average cost of capital. Blackstone estimated a value at the end of five years for CNW of 6.0x-7.0x (the "exit multiple") projected 1999 EBITDA. This analysis produced a low valuation of \$32.20 per Share, assuming an exit multiple of EBITDA of 6.0x and a weighted average cost of capital of 14%, and a high valuation of \$46.30 per Share, assuming an exit multiple of 7.0x and a weighted average cost of capital of 11%.

Potential Value to Union Pacific - Pro Forma Merger Analysis

Blackstone noted that, based on estimates of potential cost savings in a combination of CNW and Union Pacific provided to Blackstone by CNW's management, and based on the fact that Union Pacific's borrowing costs are likely to be lower than CNW's, an acquisition by Union Pacific of CNW would lead to accretions to Union Pacific's earnings per share at prices involving significant premiums to CNW's current Share price. Blackstone's analysis indicated a possible accretion to Union Pacific's 1995 estimated earnings per share of approximately \$4.53 assuming annual combination synergies of \$40 million, \$80 million and \$120 million and assuming a range of purchase prices from \$27.50 to \$37.50 per Share. The analysis indicated that Union Pacific's earnings per share could increase from as little as \$0.11 per share, assuming a \$37.50 purchase price and \$40 million of annual synergies, to as much as \$0.49 per share, assuming a \$27.50 purchase price and \$120 million of annual synergies. Blackstone noted that while the estimated

synergies presented by Union Pacific and CNW in the Control Application were higher than the \$40 million-\$120 million assumed in the pro forma merger analysis, CNW's management advised Blackstone that because of the uncertainties inherent in achieving certain of such synergies, particularly in connection with certain revenue enhancements, it would be appropriate to discount such estimated synergies in the context of a valuation analysis. Since it would be unusual for an acquiror, such as Union Pacific, to transfer all, or substantially all, of the combination benefits of a transaction to the selling party's shareholders, Blackstone noted that the potential per Share values implied by this analysis were unlikely to reflect the price which Union Pacific would be willing to pay CNW's shareholders.

Value to Union Pacific - Discounted Cash Flow

Blackstone conducted an analysis of the potential discounted cash flow value of CNW to Union Pacific using unlevered cash flows and assuming \$80 million of annual combination synergies and also assuming the projections in the Business Plan. The analysis indicated a range of per Share values assuming exit multiples of 6.0x-7.0x projected 1999 EBITDA and, based on a CAPM analysis, a weighted average cost of capital of 11% to 13% for Union Pacific. The per Share values resulting from this analysis ranged from a low of \$44.00, assuming a 6.0x exit multiple and a 13% weighted average cost of capital, to a high of \$57.70, assuming a 7.0x exit multiple and an 11% weighted average cost of capital. Since it would be unusual for an acquiror, such as Union Pacific, to transfer all, or substantially all, of the combination benefits of a transaction to the selling party's shareholders, Blackstone noted that the potential per Share values implied by this analysis were unlikely to reflect the price which Union Pacific would be willing to pay CNW's shareholders.

Leveraged Buy-out Valuation

Blackstone conducted an analysis of the values which might be realized in a leveraged buy-out of CNW. Blackstone notes, however, that given existing market conditions, the financeability of a leveraged buy-out at any meaningful premium to the current stock price of CNW would be uncertain. Blackstone estimated that the upper end of likely per Share values in a leveraged buy-out was \$27.00. Blackstone further noted that, assuming equity investors would have target returns of approximately 25%, achieving such value would require debt and equity investors to accept the projections prepared by CNW in the Business Plan. If equity investors were willing to fund a leveraged buy-out based upon the Business Plan and management's estimate of potential annual cost savings of \$46 million and a potential \$20 million decrease in annual capital expenditures, then the implied leveraged buy-out value could be increased to approximately \$36.00 per Share. However, Blackstone noted that the ability to obtain the required level of debt financing for such a transaction under these assumptions was highly uncertain.

Leveraged Recapitalization Valuation

Blackstone analyzed the potential values that might be realized in connection with a leveraged recapitalization of CNW. Based upon the Business Plan, Blackstone estimated that CNW could pay a one-time special dividend to stockholders of up to \$13.00 per Share, and estimated a range of values assuming the remaining equity (with the increased leverage) traded at multiples of estimated 1995 earnings ranging from 8.0x to 11.0x. Based on the foregoing, the total value to stockholders would range from \$26.09 per Share, assuming the lowest multiple, to \$30.99 per Share, assuming the highest multiple. These values could increase to \$36.68 per Share and \$41.80 per Share, respectively, if one also assumed management's estimates of potential annual cost savings and decreases in annual capital expenditures discussed above. However, Blackstone noted that the ability to obtain the required level of debt financing for such a transaction under these assumptions was highly uncertain.

Other Considerations

In addition to the foregoing, Blackstone conducted such other analyses and examinations as it deemed necessary in arriving at the opinion. Blackstone did not approach third parties to solicit indications of interest in acquiring CNW.

In the course of its investigation, Blackstone relied upon, and assumed the accuracy and completeness of, publicly available information and the financial and other information provided to Blackstone by CNW, but Blackstone did not assume any responsibility for independent verification of any of the foregoing information. With respect to financial forecasts, Blackstone relied upon CNW's assurances that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of CNW's management as to the future financial performance of CNW. Blackstone expressed no view as to such financial forecasts or the assumptions on which they were based. In addition, Blackstone did not make an independent evaluation or appraisal of the assets of CNW, nor was Blackstone furnished with any such evaluation and appraisals. Blackstone's opinion was based on circumstances existing and disclosed to Blackstone as of March 16, 1995.

The various financial analyses employed by Blackstone in reaching its opinion, as summarized in this statement, should not be examined in isolation, but instead must be considered as contributing to an overall judgment regarding the fairness of the Offer and Merger. Furthermore, the ranges of values presented in such analyses were not intended in any specific instance to represent definitive conclusions of the value of CNW. First, in performing its analyses Blackstone made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Union Pacific, UP Rail or CNW. Second, the specific analyses described in this statement do not purport to be appraisals and, when viewed in isolation, are not necessarily indicative of actual values or actual future results. For example, no public company utilized as a comparison is identical to CNW, and none of the precedent transactions utilized as a comparison is identical to the Offer and the Merger. Accordingly, an analysis of publicly traded comparable companies and precedent transactions does not afford mathematical conclusions. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors.

Nevertheless, when taken as a whole, the entire range of analyses undertaken by Blackstone, and the ranges of Share value thereby indicated, support Blackstone's opinion.

Conclusion

Based upon and subject to the foregoing, it was Blackstone's opinion, as stated in its letter to the Board of Directors of CNW on March 16, 1995, that, as of the date thereof, the cash consideration of \$35.00 per Share to be received by holders of the Shares of CNW pursuant to the Offer and the Merger was fair to such holders of Shares of CNW from a financial point of view.

The Blackstone Group

March 16, 1995

Board of Directors
Chicago and North Western
Transportation Company
165 North Canal Street
Chicago, Illinois 60606

Dear Sirs:

You have asked our opinion with respect to the fairness from a financial point of view to the holders of Common Stock of

Chicago and North Western Transportation Company ("CNW" or the "Company") of the cash consideration to be received by such holders pursuant to the Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), among CNW, Union Pacific Corporation ("UP") and an indirect wholly owned subsidiary of UP (the "Purchaser"). The Merger Agreement provides, among other things, that the Purchaser will make a cash tender offer for all outstanding shares of Common Stock of CNW at \$35.00 per share (the "Offer"), and that following consummation of the Offer, the Purchaser will merge with CNW in a transaction (the "Merger") in which all outstanding shares of Common Stock of CNW, other than shares held by UP and its subsidiaries, will be converted into the right to receive \$35.00 per share in cash.

In arriving at our opinion, we have reviewed the Merger Agreement and related documents, certain publicly available information relating to the business, financial condition and operations of CNW, and certain financial and other information, including financial forecasts, furnished to us by CNW that is not publicly available. We have met with certain senior officers of the Company to discuss the operations, financial condition, history and prospects of CNW's businesses.

In conducting our analysis, we have considered the terms of the Merger Agreement; stock price data, the historical and current financial position and the historical and projected cash flows and results of operations of the Company; historical financial information and stock price data with respect to certain public companies with operations that we considered comparable to those of CNW; and prices paid in certain other business combinations involving companies with operations that we considered comparable to CNW. In addition to the foregoing, we have conducted such other analyses and examinations as we have deemed necessary in arriving at our opinion. We have not approached third parties to solicit indications of interest in acquiring the Company.

In the course of our investigation, we have relied upon, and have assumed the accuracy and completeness of, publicly

Board of Directors
Chicago and North Western
Transportation Company
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available information and the financial and other information provided to us by the Company, but we have not assumed any responsibility for independent verification of any of the foregoing information. With respect to financial forecasts, we have relied upon the Company's assurances that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company's management as to the future financial performance of CNW. We express no view as to such financial forecasts or the assumptions on which they were based. In addition, we have not made an independent evaluation or appraisal of the assets of CNW, nor have we been furnished with any such evaluation and appraisals. Our opinion is based on circumstances existing and disclosed to us as of the date hereof.

We have acted as financial advisor to the Company in connection with the Offer and the Merger and will receive a fee for our services, including for rendering this opinion. In addition, an affiliate of The Blackstone Group L.P. owns shares of Common Stock of the Company amounting to less than 0.1% of the total issued and outstanding Common Stock, and a partner of The Blackstone Group L.P. is a member of the Board of Directors of the Company. The Blackstone Group L.P. has performed various financial advisory services for the Company in the past and has received fees for such services.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the cash consideration to be received by holders of Common Stock of CNW pursuant to the Offer and the Merger is fair to such holders of Common Stock

of CNW from a financial point of view.

Very truly yours,

THE BLACKSTONE GROUP L.P.

By: /s/ J. Tomilson Hill
J. Tomilson Hill

STATE OF NEW YORK)
 : ss:
COUNTY OF NEW YORK)

J. TOMILSON HILL, being duly sworn, states that he is a General Partner of Blackstone Group Holdings, L.P., an affiliate of The Blackstone Group, L.P.; that he has knowledge of the matters set forth in the attached statement; and that all statements made and matters set forth therein are true and correct to the best of his knowledge, information and belief.

/s/ J. Tomilson Hill

J. Tomilson Hill

Subscribed and sworn to
before me this 4th day
of April, 1995

/s/ Adele A. Giuliano
Notary Public

ADELE A. GIULIANO
Notary Public, State of New York
No. 24-4965431
Qualified in Kings County
Certificate filed in New York County
Commission Expires 4/96