

UNION PACIFIC CORP
Form 10-Q
October 22, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

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| | |
|---|---|
| UTAH | 13-2626465 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of October 16, 2015, there were 854,120,634 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

| for the Three Months Ended September 30, | 2015 | 2014 |
|---|----------|----------|
| Operating revenues: | | |
| Freight revenues | \$ 5,215 | \$ 5,819 |
| Other revenues | 347 | 363 |
| Total operating revenues | 5,562 | 6,182 |
| Operating expenses: | | |
| Compensation and benefits | 1,267 | 1,287 |
| Purchased services and materials | 589 | 650 |
| Fuel | 484 | 882 |
| Depreciation | 507 | 481 |
| Equipment and other rents | 302 | 310 |
| Other | 205 | 242 |
| Total operating expenses | 3,354 | 3,852 |
| Operating income | 2,208 | 2,330 |
| Other income (Note 6) | 30 | 20 |
| Interest expense | (157) | (144) |
| Income before income taxes | 2,081 | 2,206 |
| Income taxes | (781) | (836) |
| Net income | \$ 1,300 | \$ 1,370 |
| Share and Per Share (Note 8): | | |
| Earnings per share - basic | \$ 1.51 | \$ 1.53 |
| Earnings per share - diluted | \$ 1.50 | \$ 1.53 |
| Weighted average number of shares - basic | 862.9 | 893.2 |
| Weighted average number of shares - diluted | 865.8 | 896.9 |
| Dividends declared per share | \$ 0.55 | \$ 0.50 |

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

| Millions, for the Three Months Ended September 30, | 2015 | 2014 |
|---|----------|----------|
| Net income | \$ 1,300 | \$ 1,370 |
| Other comprehensive income/(loss): | | |
| Defined benefit plans | 17 | 11 |
| Foreign currency translation | (21) | (5) |
| Total other comprehensive income/(loss) [a] | (4) | 6 |
| Comprehensive income | \$ 1,296 | \$ 1,376 |

[a] Net of deferred taxes of \$(3) million and \$3 million during the three months ended September 30, 2015, and 2014, respectively.

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

| for the Nine Months Ended September 30, | 2015 | 2014 |
|---|-----------|-----------|
| Operating revenues: | | |
| Freight revenues | \$ 15,534 | \$ 16,766 |
| Other revenues | 1,071 | 1,069 |
| Total operating revenues | 16,605 | 17,835 |
| Operating expenses: | | |
| Compensation and benefits | 3,941 | 3,787 |
| Purchased services and materials | 1,832 | 1,893 |
| Fuel | 1,589 | 2,726 |
| Depreciation | 1,495 | 1,415 |
| Equipment and other rents | 925 | 938 |
| Other | 689 | 696 |
| Total operating expenses | 10,471 | 11,455 |
| Operating income | 6,134 | 6,380 |
| Other income (Note 6) | 198 | 80 |
| Interest expense | (458) | (415) |
| Income before income taxes | 5,874 | 6,045 |
| Income taxes | (2,219) | (2,296) |
| Net income | \$ 3,655 | \$ 3,749 |
| Share and Per Share (Note 8): | | |
| Earnings per share - basic | \$ 4.19 | \$ 4.16 |
| Earnings per share - diluted | \$ 4.18 | \$ 4.14 |
| Weighted average number of shares - basic | 871.5 | 900.9 |
| Weighted average number of shares - diluted | 874.6 | 904.8 |
| Dividends declared per share | \$ 1.65 | \$ 1.41 |

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

| | | |
|---|----------|----------|
| Millions, | | |
| for the Nine Months Ended September 30, | 2015 | 2014 |
| Net income | \$ 3,655 | \$ 3,749 |
| Other comprehensive income/(loss): | | |
| Defined benefit plans | 45 | 42 |
| Foreign currency translation | (47) | - |
| Total other comprehensive income/(loss) [a] | (2) | 42 |
| Comprehensive income | \$ 3,653 | \$ 3,791 |

[a] Net of deferred taxes of \$1 million and \$20 million during the nine months ended September 30, 2015, and 2014, respectively.

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Financial Position (Unaudited)

Union Pacific Corporation and Subsidiary Companies

| Millions, Except Share and Per Share Amounts | September 30, 2015 | December 31, 2014 |
|--|--------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,078 | \$ 1,586 |
| Accounts receivable, net (Note 10) | 1,508 | 1,611 |
| Materials and supplies | 741 | 712 |
| Current deferred income taxes | 218 | 277 |
| Other current assets | 397 | 493 |
| Total current assets | 3,942 | 4,679 |
| Investments | 1,373 | 1,390 |
| Net properties (Note 11) | 48,149 | 46,272 |
| Other assets | 299 | 375 |
| Total assets | \$ 53,763 | \$ 52,716 |
| Liabilities and Common Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and other current liabilities (Note 12) | \$ 2,987 | \$ 3,303 |
| Debt due within one year (Note 14) | 521 | 462 |
| Total current liabilities | 3,508 | 3,765 |
| Debt due after one year (Note 14) | 12,798 | 11,018 |
| Deferred income taxes | 15,062 | 14,680 |
| Other long-term liabilities | 1,796 | 2,064 |
| Commitments and contingencies (Note 16) | | |
| Total liabilities | 33,164 | 31,527 |
| Common shareholders' equity: | | |
| Common shares, \$2.50 par value, 1,400,000,000 authorized; 1,110,430,736 and 1,110,100,423 issued; 855,717,446 and 883,366,476 outstanding, respectively | 2,776 | 2,775 |
| Paid-in-surplus | 4,400 | 4,321 |
| Retained earnings | 29,583 | 27,367 |
| Treasury stock | (14,948) | (12,064) |
| Accumulated other comprehensive loss (Note 9) | (1,212) | (1,210) |
| Total common shareholders' equity | 20,599 | 21,189 |
| Total liabilities and common shareholders' equity | \$ 53,763 | \$ 52,716 |

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

Union Pacific Corporation and Subsidiary Companies

| Millions, for the Nine Months Ended September 30, | 2015 | 2014 |
|---|----------|----------|
| Operating Activities | | |
| Net income | \$ 3,655 | \$ 3,749 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 1,495 | 1,415 |
| Deferred income taxes and unrecognized tax benefits | 355 | 289 |
| Net gain on non-operating asset dispositions | (138) | (15) |
| Other operating activities, net | (33) | 18 |
| Changes in current assets and liabilities: | | |
| Accounts receivable, net | 103 | (221) |
| Materials and supplies | (29) | (83) |
| Other current assets | (130) | (81) |
| Accounts payable and other current liabilities | (28) | 216 |
| Income and other taxes | 375 | 71 |
| Cash provided by operating activities | 5,625 | 5,358 |
| Investing Activities | | |
| Capital investments | (3,323) | (3,226) |
| Proceeds from asset sales | 191 | 59 |
| Other investing activities, net | (118) | (158) |
| Cash used in investing activities | (3,250) | (3,325) |
| Financing Activities | | |
| Debt issued (Note 14) | 2,243 | 2,588 |
| Common share repurchases (Note 17) | (2,795) | (2,312) |
| Dividends paid (Note 12) | (1,877) | (1,186) |
| Debt repaid | (436) | (678) |
| Other financing activities, net | (18) | 10 |
| Cash used in financing activities | (2,883) | (1,578) |
| Net change in cash and cash equivalents | (508) | 455 |
| Cash and cash equivalents at beginning of year | 1,586 | 1,432 |
| Cash and cash equivalents at end of period | \$ 1,078 | \$ 1,887 |
| Supplemental Cash Flow Information | | |
| Non-cash investing and financing activities: | | |
| Capital investments accrued but not yet paid | \$ 161 | \$ 92 |
| Common shares repurchased but not yet paid | 84 | 33 |
| Capital lease financings | 13 | - |
| Cash dividends declared but not yet paid (Note 12) | - | 440 |

Cash paid for:

| | | |
|--------------------------------------|------------|------------|
| Income taxes, net of refunds | \$ (1,505) | \$ (1,907) |
| Interest, net of amounts capitalized | (491) | (460) |

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Changes in Common Shareholders' Equity (Unaudited)

Union Pacific Corporation and Subsidiary Companies

| Millions | Common Shares | Treasury Shares | Common Shares | Paid-in-Surplus | Retained Earnings | Treasury Stock | AOCI [a] | Total |
|--|---------------|-----------------|---------------|-----------------|-------------------|----------------|------------|-----------|
| Balance at January 1, 2014 | 1,109.7 | (197.7) | \$ 2,774 | \$ 4,210 | \$ 23,901 | \$ (8,910) | \$ (750) | \$ 21,225 |
| Net income | | | - | - | 3,749 | - | - | 3,749 |
| Other comp. income | | | - | - | - | - | 42 | 42 |
| Conversion, stock option exercises, forfeitures, and other | 0.4 | 2.8 | 1 | 89 | - | 62 | - | 152 |
| Share repurchases (Note 17) | - | (24.3) | - | - | - | (2,345) | - | (2,345) |
| Cash dividends declared (\$1.41 per share) | - | - | - | - | (1,270) | - | - | (1,270) |
| Balance at September 30, 2014 | 1,110.1 | (219.2) | \$ 2,775 | \$ 4,299 | \$ 26,380 | \$ (11,193) | \$ (708) | \$ 21,553 |
| Balance at January 1, 2015 | 1,110.1 | (226.7) | \$ 2,775 | \$ 4,321 | \$ 27,367 | \$ (12,064) | \$ (1,210) | \$ 21,189 |
| Net income | | | - | - | 3,655 | - | - | 3,655 |
| Other comp. loss | | | - | - | - | - | (2) | (2) |
| Conversion, stock option exercises, forfeitures, and other | 0.3 | 0.7 | 1 | 79 | - | (5) | - | 75 |
| Share repurchases (Note 17) | - | (28.7) | - | - | - | (2,879) | - | (2,879) |
| Cash dividends declared | - | - | - | - | (1,439) | - | - | (1,439) |

(\$1.65 per
share)

Balance at

| | | | | | | | | |
|-----------------------|---------|---------|----------|----------|-----------|-------------|------------|-----------|
| September 30, 2015 | 1,110.4 | (254.7) | \$ 2,776 | \$ 4,400 | \$ 29,583 | \$ (14,948) | \$ (1,212) | \$ 20,599 |
|-----------------------|---------|---------|----------|----------|-----------|-------------|------------|-----------|

[a]AOCI = Accumulated Other Comprehensive Income/(Loss) (Note 9)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For purposes of this report, unless the context otherwise requires, all references herein to the “Corporation”, “Company”, “UPC”, “we”, “us”, and “our” mean Union Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which will be separately referred to herein as “UPRR” or the “Railroad”.

1. Basis of Presentation

Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, this Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2014 Annual Report on Form 10-K. Our Consolidated Statement of Financial Position at December 31, 2014, is derived from audited financial statements. The results of operations for the nine months ended September 30, 2015, are not necessarily indicative of the results for the entire year ending December 31, 2015.

The Condensed Consolidated Financial Statements are presented in accordance with GAAP as codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Certain prior period amounts have been disaggregated to provide more detail and conform to the current period financial statement presentation.

2. Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue

Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2017. ASU 2014-09 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 (ASU 2015-03), Interest - Imputation of Interest (Subtopic 835-30). ASU 2015-03 changes the presentation of debt issuance costs in the financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will be reported as interest expense. This standard is effective for annual reporting periods beginning after December 15, 2015. ASU 2015-03 will not have a material impact on our consolidated financial position, results of operations, or cash flows.

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3. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although we provide and analyze revenue by commodity group, we treat the financial results of the Railroad as one segment due to the integrated nature of our rail network. The following table provides freight revenue by commodity group:

| Millions | Three Months Ended | | Nine Months Ended | |
|--------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Agricultural Products | \$ 880 | \$ 915 | \$ 2,686 | \$ 2,759 |
| Automotive | 529 | 527 | 1,605 | 1,560 |
| Chemicals | 882 | 936 | 2,684 | 2,742 |
| Coal | 898 | 1,099 | 2,492 | 3,049 |
| Industrial Products | 979 | 1,161 | 2,966 | 3,302 |
| Intermodal | 1,047 | 1,181 | 3,101 | 3,354 |
| Total freight revenues | \$ 5,215 | \$ 5,819 | \$ 15,534 | \$ 16,766 |
| Other revenues | 347 | 363 | 1,071 | 1,069 |
| Total operating revenues | \$ 5,562 | \$ 6,182 | \$ 16,605 | \$ 17,835 |

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported by us are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are revenues from our Mexico business which amounted to \$554 million and \$579 million, respectively, for the three months ended September 30, 2015, and September 30, 2014 and \$1.7 billion for both the nine months ended September 30, 2015, and September 30, 2014.

4. Stock-Based Compensation

We have several stock-based compensation plans under which employees and non-employee directors receive stock options, nonvested retention shares, and nonvested stock units. We refer to the nonvested shares and stock units collectively as “retention awards”. We have elected to issue treasury shares to cover option exercises and stock unit vestings, while new shares are issued when retention shares are granted. Information regarding stock-based compensation appears in the table below:

| Millions | Three | | Nine | |
|--|-----------|-------|-----------|--------|
| | Months | | Months | |
| | Ended | | Ended | |
| | September | | September | |
| | 30, | 30, | 30, | 30, |
| | 2015 | 2014 | 2015 | 2014 |
| Stock-based compensation, before tax: | | | | |
| Stock options | \$ 5 | \$ 5 | \$ 14 | \$ 17 |
| Retention awards | 20 | 23 | 65 | 74 |
| Total stock-based compensation, before tax | \$ 25 | \$ 28 | \$ 79 | \$ 91 |
| Excess tax benefits from equity compensation plans | \$ 2 | \$ 7 | \$ 57 | \$ 110 |

Stock Options – We estimate the fair value of our stock option awards using the Black-Scholes option pricing model. The table below shows the annual weighted-average assumptions used for valuation purposes:

| Weighted-Average Assumptions | 2015 | 2014 |
|---|----------|----------|
| Risk-free interest rate | 1.3% | 1.6% |
| Dividend yield | 1.8% | 2.1% |
| Expected life (years) | 5.1 | 5.2 |
| Volatility | 23.4% | 30.0% |
| Weighted-average grant-date fair value of options granted | \$ 22.30 | \$ 20.18 |

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant; the dividend yield is calculated as the ratio of dividends paid per share of common stock to the stock price on the date

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of grant; the expected life is based on historical and expected exercise behavior; and volatility is based on the historical volatility of our stock price over the expected life of the option.

A summary of stock option activity during the nine months ended September 30, 2015, is presented below:

| | Options (thous.) | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Intrinsic Value |
|--|------------------|---------------------------------|---|-----------------|
| Outstanding at January 1, 2015 | 5,387 | \$ 53.56 | 5.8 yrs. | \$ 353 |
| Granted | 934 | 122.85 | N/A | N/A |
| Exercised | (569) | 42.25 | N/A | N/A |
| Forfeited or expired | (30) | 90.66 | N/A | N/A |
| Outstanding at September 30, 2015 | 5,722 | \$ 65.80 | 6.1 yrs. | \$ 161 |
| Vested or expected to vest at September 30, 2015 | 5,665 | \$ 65.43 | 5.8 yrs. | \$ 161 |
| Options exercisable at September 30, 2015 | 3,819 | \$ 48.34 | 4.5 yrs. | \$ 153 |

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at September 30, 2015, are subject to performance or market-based vesting conditions.

At September 30, 2015, there was \$21 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.3 years. Additional information regarding stock option exercises appears in the table below:

| Millions | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|-------|---------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Intrinsic value of stock options exercised | \$ 3 | \$ 16 | \$ 42 | \$ 174 |
| Cash received from option exercises | 2 | 12 | 23 | 43 |
| Treasury shares repurchased for employee payroll taxes | (1) | (5) | (10) | (18) |
| Tax benefit realized from option exercises | 1 | 6 | 16 | 66 |
| Aggregate grant-date fair value of stock options vested | - | - | 19 | 17 |

Retention Awards – The fair value of retention awards is based on the closing price of the stock on the grant date. Dividends and dividend equivalents are paid to participants during the vesting periods.

Changes in our retention awards during the nine months ended September 30, 2015, were as follows:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---------------------------------|----------|--|
| | (thous.) | |
| Nonvested at January 1, 2015 | 3,403 | \$ 64.39 |
| Granted | 521 | 122.79 |
| Vested | (913) | 47.11 |
| Forfeited | (85) | 72.34 |
| Nonvested at September 30, 2015 | 2,926 | \$ 79.95 |

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At September 30, 2015, there was \$101 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.7 years.

Performance Retention Awards – In February 2015, our Board of Directors approved performance stock unit grants. Other than different performance targets, the basic terms of these performance stock units are identical to those granted in February 2013, and February 2014, including using annual return on invested capital (ROIC) as the performance measure. We define ROIC as net operating profit adjusted for interest expense (including interest on the present value of operating leases) and taxes on interest divided by average invested capital adjusted for the present value of operating leases.

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Stock units awarded to selected employees under these grants are subject to continued employment for 37 months and the attainment of certain levels of ROIC. We expense the fair value of the units that are probable of being earned based on our forecasted ROIC over the 3-year performance period. We measure the fair value of these performance stock units based upon the closing price of the underlying common stock as of the date of grant, reduced by the present value of estimated future dividends. Dividend equivalents are paid to participants only after the units are earned.

The assumptions used to calculate the present value of estimated future dividends related to the February 2015 grant were as follows:

| | |
|--|---------|
| | 2015 |
| Dividend per share per quarter | \$ 0.55 |
| Risk-free interest rate at date of grant | 0.8% |

Changes in our performance retention awards during the nine months ended September 30, 2015, were as follows:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---------------------------------|----------|--|
| | (thous.) | |
| Nonvested at January 1, 2015 | 1,583 | \$ 65.33 |
| Granted | 339 | 117.42 |
| Vested | (580) | 54.38 |
| Forfeited | (30) | 76.26 |
| Nonvested at September 30, 2015 | 1,312 | \$ 83.38 |

At September 30, 2015, there was \$25 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 0.9 years. This expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

5. Retirement Plans

Pension and Other Postretirement Benefits

Pension Plans – We provide defined benefit retirement income to eligible non-union employees through qualified and non-qualified (supplemental) pension plans. Qualified and non-qualified pension benefits are based on years of service and the highest compensation during the latest years of employment, with specific reductions made for early retirements.

Other Postretirement Benefits (OPEB) – We provide medical and life insurance benefits for eligible retirees. These benefits are funded as medical claims and life insurance premiums are paid.

Expense

Both pension and OPEB expense are determined based upon the annual service cost of benefits (the actuarial cost of benefits earned during a period) and the interest cost on those liabilities, less the expected return on plan assets. The expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a five-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns on assets and expected returns based on long-term rate of return assumptions. Differences in actual experience in relation to assumptions are not recognized in net income immediately, but are deferred in accumulated other comprehensive income and, if necessary, amortized as pension or OPEB expense.

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The components of our net periodic pension cost were as follows:

| Millions | Three Months Ended | | Nine Months Ended | |
|--------------------------------|--------------------|-------|-------------------|-------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 30 | \$ 17 | \$ 78 | \$ 52 |
| Interest cost | 41 | 41 | 121 | 118 |
| Expected return on plan assets | (63) | (57) | (191) | (172) |
| Amortization of: | | | | |
| Actuarial loss | 27 | 18 | 79 | 53 |
| Net periodic pension cost | \$ 35 | \$ 19 | \$ 87 | \$ 51 |

The components of our net periodic OPEB cost were as follows:

| Millions | Three Months Ended | | Nine Months Ended | |
|------------------------|--------------------|------|-------------------|-------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$ 1 | \$ - | \$ 2 | \$ 2 |
| Interest cost | 3 | 3 | 10 | 10 |
| Amortization of: | | | | |
| Prior service credit | (3) | (3) | (8) | (9) |
| Actuarial loss | 4 | 3 | 10 | 8 |
| Net periodic OPEB cost | \$ 5 | \$ 3 | \$ 14 | \$ 11 |

Cash Contributions

For the nine months ended September 30, 2015, we made \$100 million of cash contributions to the qualified pension plan. Any additional contributions made in the fourth quarter of 2015 will be based on cash generated from operations and financial market considerations. Our policy with respect to funding the qualified plans is to fund at least the

minimum required by law and not more than the maximum amount deductible for tax purposes. At September 30, 2015, we do not have minimum cash funding requirements for 2015.

6. Other Income

Other income included the following:

| Millions, | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|-------|--|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Net gain on non-operating asset dispositions [a] | \$ 10 | \$ 5 | \$ 138 | \$ 16 |
| Rental income | 25 | 25 | 71 | 72 |
| Interest income | 2 | 1 | 4 | 3 |
| Non-operating environmental costs and other [b] | (7) | (11) | (15) | (11) |
| Total | \$ 30 | \$ 20 | \$ 198 | \$ 80 |

[a] 2015 includes \$113 million related to a real estate sale in the second quarter.

[b] 2014 includes \$14 million related to the sale of a permanent easement in the first quarter.

7. Income Taxes

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 2011, and the statute of limitations bars any additional tax assessments. UPC is not currently under audit by the Internal Revenue Service.

In the third quarter of 2015, UPC and the IRS signed a closing agreement resolving all tax matters for tax years 2009-2010. The settlement had an immaterial effect on our income tax expense. In connection with the settlement, UPC will pay \$10 million in the fourth quarter of 2015.

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Several state tax authorities are examining our state income tax returns for years 2006 through 2010.

At September 30, 2015, we had a net liability for unrecognized tax benefits of \$73 million. Of that amount, \$12 million is classified as a current liability in the Condensed Consolidated Statements of Financial Position.

8. Earnings Per Share

The following table provides a reconciliation between basic and diluted earnings per share:

| Millions, Except Per Share Amounts | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|----------|---------------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | \$ 1,300 | \$ 1,370 | \$ 3,655 | \$ 3,749 |
| Weighted-average number of shares outstanding: | | | | |
| Basic | 862.9 | 893.2 | 871.5 | 900.9 |
| Dilutive effect of stock options | 1.3 | 1.8 | 1.6 | 2.1 |
| Dilutive effect of retention shares and units | 1.6 | 1.9 | 1.5 | 1.8 |
| Diluted | 865.8 | 896.9 | 874.6 | 904.8 |
| Earnings per share – basic | \$ 1.51 | \$ 1.53 | \$ 4.19 | \$ 4.16 |
| Earnings per share – diluted | \$ 1.50 | \$ 1.53 | \$ 4.18 | \$ 4.14 |
| Stock options excluded as their inclusion would be anti-dilutive | 0.9 | - | 0.8 | 0.5 |

9. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2015, and 2014, were as follows (net of tax):

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| Millions | Defined benefit plans | Foreign currency translation | Total |
|---|-----------------------------|------------------------------------|------------|
| Balance at July 1, 2015 | \$ (1,133) | \$ (75) | \$ (1,208) |
| Other comprehensive income/(loss) before reclassifications | - | (21) | (21) |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a] | 17 | - | 17 |
| Net quarter-to-date other comprehensive income/(loss), net of taxes of \$(3) million | 17 | (21) | (4) |
| Balance at September 30, 2015 | \$ (1,116) | \$ (96) | \$ (1,212) |
| Balance at July 1, 2014 | \$ (682) | \$ (32) | \$ (714) |
| Other comprehensive income/(loss) before reclassifications | - | (5) | (5) |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a] | 11 | - | 11 |
| Net quarter-to-date other comprehensive income/(loss), net of taxes of \$3 million | 11 | (5) | 6 |
| Balance at September 30, 2014 | \$ (671) | \$ (37) | \$ (708) |

[a] The accumulated other comprehensive income/(loss) reclassification components are 1) prior service cost/(benefit) and 2) net actuarial loss which are both included in the computation of net periodic pension cost. See Note 5 Retirement Plans for additional details.

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| Millions | Defined benefit plans | Foreign currency translation | Total |
|---|-----------------------------|------------------------------------|------------|
| Balance at January 1, 2015 | \$ (1,161) | \$ (49) | \$ (1,210) |
| Other comprehensive income/(loss) before reclassifications | (5) | (47) | (52) |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a] | 50 | - | 50 |
| Net year-to-date other comprehensive income/(loss), net of taxes of \$1 million | 45 | (47) | (2) |
| Balance at September 30, 2015 | \$ (1,116) | \$ (96) | \$ (1,212) |
| Balance at January 1, 2014 | \$ (713) | \$ (37) | \$ (750) |
| Other comprehensive income/(loss) before reclassifications | 10 | - | 10 |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a] | 32 | - | 32 |
| Net year-to-date other comprehensive income/(loss), net of taxes of \$20 million | 42 | - | 42 |
| Balance at September 30, 2014 | \$ (671) | \$ (37) | \$ (708) |

[a] The accumulated other comprehensive income/(loss) reclassification components are 1) prior service cost/(benefit) and 2) net actuarial loss which are both included in the computation of net periodic pension cost. See Note 5 Retirement Plans for additional details.

10. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, credit worthiness of customers, and current economic conditions. At September 30, 2015, and December 31, 2014, our accounts receivable were reduced by \$4 million and \$5 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At September 30, 2015, and December 31, 2014, receivables classified as other assets were reduced by allowances of \$13 million and \$16 million, respectively.

Receivables Securitization Facility – The Railroad maintains a \$650 million, 3-year receivables securitization facility maturing in July 2017 under which it sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse, an undivided interest in accounts receivable to investors. The investors have no recourse to the Railroad's other assets except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

The amount outstanding under the facility was \$400 million at both September 30, 2015, and December 31, 2014. The facility was supported by \$1.1 billion and \$1.2 billion of accounts receivable as collateral at September 30, 2015, and December 31, 2014, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amount the Railroad is allowed to maintain under the facility, with a maximum of \$650 million, may fluctuate based on the availability of eligible receivables and is directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the facility would not materially change.

The costs of the receivables securitization facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$1 million for both the three months ended September 30, 2015, and 2014, and \$4 million and \$3 million for the nine months ended September 30, 2015, and 2014, respectively.

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11. Properties

The following tables list the major categories of property and equipment, as well as the weighted average estimated useful life for each category (in years):

| Millions, Except Estimated Useful Life As of September 30, 2015 | Cost | Accumulated Depreciation | Net Book Value | Estimated Useful Life |
|--|-----------|-----------------------------|-------------------|--------------------------|
| Land | \$ 5,183 | \$ N/A | \$ 5,183 | N/A |
| Road: | | | | |
| Rail and other track material | 15,120 | 5,427 | 9,693 | 37 |
| Ties | 9,393 | 2,576 | 6,817 | 33 |
| Ballast | 4,988 | 1,328 | 3,660 | 34 |
| Other roadway [a] | 17,191 | 2,983 | 14,208 | 47 |
| Total road | 46,692 | 12,314 | 34,378 | N/A |
| Equipment: | | | | |
| Locomotives | 8,548 | 3,627 | 4,921 | 19 |
| Freight cars | 2,178 | 956 | 1,222 | 24 |
| Work equipment and other | 870 | 185 | 685 | 19 |
| Total equipment | 11,596 | 4,768 | 6,828 | N/A |
| Technology and other | 924 | 357 | 567 | 11 |
| Construction in progress | 1,193 | - | 1,193 | N/A |
| Total | \$ 65,588 | \$ 17,439 | \$ 48,149 | N/A |

| Millions, Except Estimated Useful Life As of December 31, 2014 | Cost | Accumulated Depreciation | Net Book Value | Estimated Useful Life |
|---|----------|-----------------------------|-------------------|--------------------------|
| Land | \$ 5,194 | \$ N/A | \$ 5,194 | N/A |
| Road: | | | | |
| Rail and other track material | 14,588 | 5,241 | 9,347 | 33 |
| Ties | 9,102 | 2,450 | 6,652 | 33 |
| Ballast | 4,826 | 1,264 | 3,562 | 34 |
| Other roadway [a] | 16,476 | 2,852 | 13,624 | 47 |
| Total road | 44,992 | 11,807 | 33,185 | N/A |
| Equipment: | | | | |
| Locomotives | 8,276 | 3,694 | 4,582 | 20 |

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| | | | | |
|--------------------------|-----------|-----------|-----------|-----|
| Freight cars | 2,116 | 968 | 1,148 | 25 |
| Work equipment and other | 684 | 153 | 531 | 18 |
| Total equipment | 11,076 | 4,815 | 6,261 | N/A |
| Technology and other | 872 | 320 | 552 | 10 |
| Construction in progress | 1,080 | - | 1,080 | N/A |
| Total | \$ 63,214 | \$ 16,942 | \$ 46,272 | N/A |

[a]Other roadway includes grading, bridges and tunnels, signals, buildings, and other road assets.

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12. Accounts Payable and Other Current Liabilities

| Millions | Sep. 30, Dec. 31, | |
|--|-------------------|----------|
| | 2015 | 2014 |
| Accounts payable | \$ 934 | \$ 877 |
| Income and other taxes payable | 562 | 412 |
| Accrued wages and vacation | 410 | 409 |
| Accrued casualty costs | 196 | 249 |
| Interest payable | 143 | 178 |
| Equipment rents payable | 105 | 100 |
| Dividends payable [a] | - | 438 |
| Other | 637 | 640 |
| Total accounts payable and other current liabilities | \$ 2,987 | \$ 3,303 |

[a]Beginning in 2015, the timing of the dividend declaration and payable dates was aligned to occur within the same quarter. The 2015 dividends paid amount includes the fourth quarter 2014 dividend of \$438 million, which was paid on January 2, 2015, the first quarter 2015 dividend of \$484 million, which was paid on March 30, 2015, the second quarter 2015 dividend of \$479 million, which was paid on June 30, 2015, as well as the third quarter 2015 dividend of \$476 million, which was paid on September 30, 2015.

13. Financial Instruments

Strategy and Risk – We may use derivative financial instruments in limited instances for other than trading purposes to assist in managing our overall exposure to fluctuations in interest rates and fuel prices. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature and relationships between the hedging instruments and hedged items at inception, as well as our risk-management objectives, strategies for undertaking the various hedge transactions, and method of assessing hedge effectiveness. Changes in the fair market value of derivative financial instruments that do not qualify for hedge accounting are charged to earnings. We may use swaps, collars, futures, and/or forward contracts to mitigate the risk of adverse movements in interest rates and fuel prices; however, the use of these derivative financial instruments may limit future benefits from favorable interest rate and fuel price movements.

Fair Value of Financial Instruments – The fair value of our short- and long-term debt was estimated using a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt

securities. All of the inputs used to determine the fair market value of the Corporation's long-term debt are Level 2 inputs and obtained from an independent source. At September 30, 2015, the fair value of total debt was \$14.3 billion, approximately \$1.0 billion more than the carrying value. At December 31, 2014, the fair value of total debt was \$13.0 billion, approximately \$1.5 billion more than the carrying value. The fair value of the Corporation's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules. At both September 30, 2015, and December 31, 2014, approximately \$163 million of debt securities contained call provisions that allow us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

14. Debt

Credit Facilities – At September 30, 2015, we had \$1.7 billion of credit available under our revolving credit facility (the facility), which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility during the nine months ended September 30, 2015. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The facility matures in May 2019 under a five-year term and requires the Corporation to maintain a debt-to-net-worth coverage ratio. At September 30, 2015, and December 31, 2014 (and at all times during the periods presented), we were in compliance with this covenant.

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The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At September 30, 2015, the debt-to-net-worth coverage ratio allowed us to carry up to \$41.2 billion of debt (as defined in the facility), and we had \$13.4 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a \$125 million cross-default provision and a change-of-control provision.

During the three and nine months ended September 30, 2015, we did not issue or repay any commercial paper, and at September 30, 2015, we had no commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and, unless we change the terms of our commercial paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings – We filed an automatic shelf registration statement with the SEC that became effective on February 9, 2015. The Board of Directors authorized the issuance of up to \$4 billion of debt securities, replacing the \$4 billion authorized under our shelf registration filed in February 2013, which was fully utilized after our January 2015 debt offering noted below. Under our current shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings.

During the nine months ended September 30, 2015, we issued the following unsecured, fixed-rate debt securities under our shelf registrations:

| Date | Description of Securities |
|------------------|--|
| January 29, 2015 | \$250 million of 1.80% Notes due February 1, 2020 |
| | \$450 million of 3.375% Notes due February 1, 2035 |
| | \$450 million of 3.875% Notes due February 1, 2055 |
| June 19, 2015 | \$400 million of 2.250% Notes due June 19, 2020 |
| | \$300 million of 3.250% Notes due August 15, 2025 |

We used the net proceeds from the offerings for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At

September 30, 2015, we had remaining authority to issue up to \$3.3 billion of debt securities under our current shelf registration.

Equipment Trust – On May 12, 2015, UPRR consummated a pass-through (P/T) financing, whereby a P/T trust was created, which issued \$399 million of P/T trust certificates with a stated interest rate of 2.695%. The P/T trust certificates will mature on May 12, 2027. The proceeds from the issuance of the P/T trust certificates were used to purchase equipment trust certificates to be issued by UPRR to finance the acquisition of 182 locomotives. The equipment trust certificates are secured by a lien on the locomotives. The \$399 million is classified as debt due after one year in our Condensed Consolidated Statements of Financial Position.

Receivables Securitization Facility – As of both September 30, 2015, and December 31, 2014, we recorded \$400 million of borrowings under our receivables securitization facility as secured debt. (See further discussion of our receivables securitization facility in Note 10).

15. Variable Interest Entities

We have entered into various lease transactions in which the structure of the leases contain variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions (principally involving railroad equipment and facilities) and have no other activities, assets or liabilities outside of the lease transactions. Within these lease arrangements, we have the right to purchase some or all of the assets at fixed prices. Depending on market conditions, fixed-price purchase options available

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in the leases could potentially provide benefits to us; however, these benefits are not expected to be significant.

We maintain and operate the assets based on contractual obligations within the lease arrangements, which set specific guidelines consistent within the railroad industry. As such, we have no control over activities that could materially impact the fair value of the leased assets. We do not hold the power to direct the activities of the VIEs and, therefore, do not control the ongoing activities that have a significant impact on the economic performance of the VIEs. Additionally, we do not have the obligation to absorb losses of the VIEs or the right to receive benefits of the VIEs that could potentially be significant to the VIEs.

We are not considered to be the primary beneficiary and do not consolidate these VIEs because our actions and decisions do not have the most significant effect on the VIE's performance and our fixed-price purchase options are not considered to be potentially significant to the VIEs. The future minimum lease payments associated with the VIE leases totaled \$2.6 billion as of September 30, 2015.

16. Commitments and Contingencies

Asserted and Unasserted Claims – Various claims and lawsuits are pending against us and certain of our subsidiaries. We cannot fully determine the effect of all asserted and unasserted claims on our consolidated results of operations, financial condition, or liquidity. To the extent possible, we have recorded a liability where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities and insurance recoveries previously recorded for these matters.

Personal Injury – The cost of personal injuries to employees and others related to our activities is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use an actuarial analysis to measure the expense and liability, including unasserted claims. The Federal Employers' Liability Act (FELA) governs compensation for work-related accidents. Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. We offer a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

Our personal injury liability is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 93% of the recorded liability is related to asserted claims and approximately 7% is related to unasserted claims at September 30, 2015. Because of the uncertainty surrounding the ultimate outcome of personal injury claims, it is reasonably possible that future costs to settle these claims may range from approximately \$317

million to \$343 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

| Millions, for the Nine Months Ended September 30, | 2015 | 2014 |
|--|--------|--------|
| Beginning balance | \$ 335 | \$ 294 |
| Current year accruals | 65 | 73 |
| Changes in estimates for prior years | (3) | (20) |
| Payments | (80) | (44) |
| Ending balance at September 30 | \$ 317 | \$ 303 |
| Current portion, ending balance at September 30 | \$ 63 | \$ 77 |

We have insurance coverage for a portion of the costs incurred to resolve personal injury-related claims, and we have recognized an asset for estimated insurance recoveries at September 30, 2015, and December 31, 2014.

Asbestos – We are a defendant in a number of lawsuits in which current and former employees and other parties allege exposure to asbestos. We assess our potential liability using a statistical analysis of

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resolution costs for asbestos-related claims. This liability is updated annually and excludes future defense and processing costs. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

- The ratio of future claims by alleged disease would be consistent with historical averages adjusted for inflation.
- The number of claims filed against us will decline each year.
- The average settlement values for asserted and unasserted claims will be equivalent to historical averages.
- The percentage of claims dismissed in the future will be equivalent to historical averages.

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 21% of the recorded liability related to asserted claims and approximately 79% related to unasserted claims at September 30, 2015.

Our asbestos-related liability activity was as follows:

| Millions, for the Nine Months Ended September 30, | 2015 | 2014 |
|--|--------|--------|
| Beginning balance | \$ 126 | \$ 131 |
| Accruals | - | - |
| Payments | (4) | (5) |
| Ending balance at September 30 | \$ 122 | \$ 126 |
| Current portion, ending balance at September 30 | \$ 7 | \$ 9 |

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at September 30, 2015, and December 31, 2014.

We believe that our estimates of liability for asbestos-related claims and insurance recoveries are reasonable and probable. The amounts recorded for asbestos-related liabilities and related insurance recoveries were based on currently known facts. However, future events, such as the number of new claims filed each year, average settlement costs, and insurance coverage issues, could cause the actual costs and insurance recoveries to be higher or lower than the projected amounts. Estimates also may vary in the future if strategies, activities, and outcomes of asbestos litigation materially change; federal and state laws governing asbestos litigation increase or decrease the probability or amount of compensation of claimants; and there are material changes with respect to payments made to claimants by other defendants.

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have identified 289 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 31 sites that are the subject of actions taken by the U.S. government, 20 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When we identify an environmental issue with respect to property owned, leased, or otherwise used in our business, we perform, with assistance of our consultants, environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and such costs can be reasonably estimated. Our environmental liability is not discounted to present value due to the uncertainty surrounding the timing of future payments.

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Our environmental liability activity was as follows:

| Millions, for the Nine Months Ended September 30, | 2015 | 2014 |
|--|--------|--------|
| Beginning balance | \$ 182 | \$ 171 |
| Accruals | 51 | 37 |
| Payments | (32) | (29) |
| Ending balance at September 30 | \$ 201 | \$ 179 |
| Current portion, ending balance at September 30 | \$ 60 | \$ 51 |

The environmental liability includes future costs for remediation and restoration of sites, as well as ongoing monitoring costs, but excludes any anticipated recoveries from third parties. Cost estimates are based on information available for each site, financial viability of other potentially responsible parties, and existing technology, laws, and regulations. The ultimate liability for remediation is difficult to determine because of the number of potentially responsible parties, site-specific cost sharing arrangements with other potentially responsible parties, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and the speculative nature of remediation costs. Estimates of liability may vary over time due to changes in federal, state, and local laws governing environmental remediation. Current obligations are not expected to have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

Insurance – The Company has a consolidated, wholly-owned captive insurance subsidiary (the captive), that provides insurance coverage for certain risks including FELA claims and property coverage which are subject to reinsurance. The captive entered into annual reinsurance treaty agreements that insure workers compensation, general liability, auto liability and FELA risk. The captive cedes a portion of its FELA exposure through the treaty and assumes a proportionate share of the entire risk. The captive receives direct premiums, which are netted against the Company's premium costs in other expenses in the Condensed Consolidated Statements of Income. The treaty agreements provide for certain protections against the risk of treaty participants' non-performance, and we do not believe our exposure to treaty participants' non-performance is material at this time. In the event the Company leaves the reinsurance program, the Company is not relieved of its primary obligation to the policyholders for activity prior to the termination of the treaty agreements. We record both liabilities and reinsurance receivables using an actuarial analysis based on historical experience in our Condensed Consolidated Statements of Financial Position.

Guarantees – At September 30, 2015, and December 31, 2014, we were contingently liable for guarantees of \$56 million and \$82 million, respectively. We have recorded a liability of \$0 and \$0.3 million for the fair value of these obligations as of September 30, 2015, and December 31, 2014, respectively. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to equipment financings and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect

on our consolidated financial condition, results of operations, or liquidity.

Indemnities – We are contingently obligated under a variety of indemnification arrangements, although in some cases the extent of our potential liability is limited, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Operating Leases – At September 30, 2015, we had commitments for future minimum lease payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year of approximately \$3.4 billion.

Gain Contingency – UPRR and Santa Fe Pacific Pipelines (SFPP, a subsidiary of Kinder Morgan Energy Partners, L.P.) currently are engaged in a proceeding to resolve the fair market rent payable to UPRR commencing on January 1, 2004, for pipeline easements on UPRR rights-of-way (Union Pacific

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Railroad Company vs. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. “D” Kinder Morgan G.P., Inc., et al., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004). In February 2007, a trial began to resolve this issue, and in May 2012, the trial judge rendered an opinion establishing the fair market rent and entering judgment for back rent, including prejudgment interest. SFPP appealed the judgment. On November 5, 2014, the Second District Circuit Court of Appeal in California issued an opinion holding that UPRR was not entitled to collect rent from SFPP for easements on the portions of the property acquired solely through federal government land grants issued during the 1800s. The Appellate Court also reversed the award of prejudgment interest and remanded the case to the trial court. A favorable final judgment may materially affect UPRR's results of operations in the period of any monetary recoveries. Due to the uncertainty regarding the amount and timing of any recovery or any subsequent proceedings, we consider this a gain contingency and have not recognized any amounts in the Condensed Consolidated Financial Statements as of September 30, 2015.

17. Share Repurchase Program

Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2017, replacing our previous repurchase program. As of September 30, 2015, we repurchased a total of \$15.4 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased under this repurchase program during this reporting period.

| | Number of Shares | | Average Price Paid | |
|--|-------------------|------------|--------------------|----------|
| | Purchased 2015 | 2014 | 2015 | 2014 |
| First quarter | 6,881,455 | 7,640,000 | \$ 117.28 | \$ 89.43 |
| Second quarter | 7,975,100 | 8,320,000 | 104.62 | 96.84 |
| Third quarter | 13,800,700 | 8,347,000 | 89.65 | 102.54 |
| Total | 28,657,255 | 24,307,000 | \$ 100.45 | \$ 96.47 |
| Remaining number of shares that may be repurchased under current authority | | | 59,299,345 | |

Management's assessments of market conditions and other pertinent factors guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

From October 1, 2015, through October 21, 2015, we repurchased 2.0 million shares at an aggregate cost of approximately \$188 million.

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2015, Compared to

Three and Nine Months Ended September 30, 2014

For purposes of this report, unless the context otherwise requires, all references herein to "UPC", "Corporation", "Company", "we", "us", and "our" shall mean Union Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which we separately refer to as "UPRR" or the "Railroad".

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and applicable notes to the Condensed Consolidated Financial Statements, Item 1, and other information included in this report. Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP).

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable business segment. Although we provide and analyze revenue by commodity group, we treat the financial results of the Railroad as one segment due to the integrated nature of our rail network.

Available Information

Our Internet website is www.up.com. We make available free of charge on our website (under the "Investors" caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; eXtensible Business Reporting Language (XBRL) documents; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to any such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such

material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC's Internet site at www.sec.gov. We provide these previously filed reports as a convenience and their contents reflect only information that was true and correct as of the date of the report. We assume no obligation to update this historical information. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

References to our website address in this report, including references in Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 2, are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

Critical Accounting Policies and Estimates

We base our discussion and analysis of our financial condition and results of operations upon our Condensed Consolidated Financial Statements. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ materially from actual results, the impact on the Condensed Consolidated Financial Statements may be material. Our critical accounting policies are available in Item 7 of our 2014 Annual

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Report on Form 10-K. There have not been any significant changes with respect to these policies during the first nine months of 2015.

RESULTS OF OPERATIONS

Quarterly Summary

We reported earnings of \$1.50 per diluted share on net income of \$1.3 billion in the third quarter of 2015 compared to earnings of \$1.53 per diluted share on net income of \$1.4 billion for the third quarter of 2014. Freight revenues decreased 10%, or \$604 million, in the third quarter compared to the same period in 2014. The decrease was due to a 6% decline in volume and lower average revenue per car (ARC) driven by lower fuel surcharge revenue and negative business mix, partially offset by core pricing gains. Lower energy prices continue to negatively impact the demand for coal and shale related products. In addition to the declines in coal, frac sand, pipe, and crude oil shipments; commodity shipments of grain, metals, and international intermodal were down compared to 2014. Vehicle sales remained strong in the third quarter, driving continued growth in shipments of finished vehicles and automotive parts.

Throughout the quarter, we progressed our efforts to align our critical resources with current demand. At the end of the quarter, we had approximately 2,700 employees either furloughed or in alternate work status and approximately 950 locomotives in storage. Our operating expenses decreased 13% in the quarter due to lower fuel prices, volume related resource reductions, and productivity gains offsetting inflation and depreciation. The lower costs contributed to a best-ever 60.3% quarterly operating ratio, which improved 2.0 points from last year's third quarter record performance.

We also improved our operating and service metrics during the quarter. As reported to the Association of American Railroads (AAR), average train speed for the third quarter improved 8% compared to the same period in 2014 and 4% from the second quarter of 2015. The year-over-year improvement in train speed resulted from lower volumes, improved network fluidity and overall operations. Average terminal dwell time in the third quarter improved 3% compared to the same period in 2014, aided by the lower volumes and improved network operations.

Operating Revenues

| Millions | Three Months | | | Nine Months | | |
|------------------|--------------------|--------------------|----------|--------------------|--------------------|----------|
| | Ended | | % Change | Ended | | % Change |
| | September 30, 2015 | September 30, 2014 | | September 30, 2015 | September 30, 2014 | |
| Freight revenues | \$ 5,215 | \$ 5,819 | (10) % | \$ 15,534 | \$ 16,766 | (7) % |
| Other revenues | 347 | 363 | (4) | 1,071 | 1,069 | - |
| Total | \$ 5,562 | \$ 6,182 | (10) % | \$ 16,605 | \$ 17,835 | (7) % |

We generate freight revenues by transporting freight or other materials from our six commodity groups. Freight revenues vary with volume (carloads) and ARC. Changes in price, traffic mix and fuel surcharges drive ARC. We provide some of our customers with contractual incentives for meeting or exceeding specified cumulative volumes or shipping to and from specific locations, which we record as reductions to freight revenues based on the actual or projected future shipments. We recognize freight revenues as shipments move from origin to destination. We allocate freight revenues between reporting periods based on the relative transit time in each reporting period and recognize expenses as we incur them.

Other revenues include revenues earned by our subsidiaries, revenues from commuter rail operations that we manage, accessorial revenues, which we earn when customers retain equipment owned or controlled by us or when we perform additional services such as switching or storage, and miscellaneous contract revenue. We recognize other revenues as we perform services or meet contractual obligations.

Freight revenues, excluding the impact of lower fuel surcharge revenue, decreased during the third quarter and year-to-date periods of 2015 compared to 2014 as a result of volume declines in five of our six commodity groups, partially offset by core pricing gains in all six commodity groups.

Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were \$314 million and \$1.1 billion in the third quarter and year-to-date periods of 2015 compared to \$721 million and \$2.1 billion in the same periods of 2014. Lower fuel surcharge

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revenue resulted from lower fuel prices and lower volumes, partially offset by the lag impact of our fuel surcharge programs (it can generally take up to two months for changing fuel prices to affect fuel surcharge recoveries).

Other revenues decreased in the third quarter of 2015 compared to 2014 due to lower revenues at our subsidiaries, primarily those that broker intermodal and automotive services. Year-to-date, the lower revenue at our subsidiaries was offset by higher accessorial revenue resulting from the West Coast port slowdown in the first half of the year.

The following tables summarize the year-over-year changes in freight revenues, revenue carloads, and ARC by commodity type:

| Freight Revenues Millions | Three Months Ended | | | Nine Months Ended | | |
|------------------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
| | September 30, 2015 | September 30, 2014 | % Change | September 30, 2015 | September 30, 2014 | % Change |
| Agricultural Products | \$ 880 | \$ 915 | (4) % | \$ 2,686 | \$ 2,759 | (3) % |
| Automotive | 529 | 527 | - | 1,605 | 1,560 | 3 |
| Chemicals | 882 | 936 | (6) | 2,684 | 2,742 | (2) |
| Coal | 898 | 1,099 | (18) | 2,492 | 3,049 | (18) |
| Industrial Products | 979 | 1,161 | (16) | 2,966 | 3,302 | (10) |
| Intermodal | 1,047 | 1,181 | (11) | 3,101 | 3,354 | (8) |
| Total | \$ 5,215 | \$ 5,819 | (10) % | \$ 15,534 | \$ 16,766 | (7) % |

| Revenue Carloads Thousands, | Three Months Ended | | | Nine Months Ended | | |
|--------------------------------|--------------------------|--------------------------|-------------|--------------------------|--------------------------|-------------|
| | September 30, 2015 | September 30, 2014 | % Change | September 30, 2015 | September 30, 2014 | % Change |
| Agricultural Products | 232 | 239 | (3) % | 702 | 721 | (3) % |
| Automotive | 214 | 204 | 5 | 638 | 600 | 6 |
| Chemicals | 278 | 288 | (3) | 828 | 841 | (2) |
| Coal | 398 | 466 | (15) | 1,106 | 1,313 | (16) |
| Industrial Products | 319 | 363 | (12) | 933 | 1,033 | (10) |
| Intermodal [a] | 898 | 936 | (4) | 2,652 | 2,693 | (2) |
| Total | 2,339 | 2,496 | (6) % | 6,859 | 7,201 | (5) % |

| | Three Months | | | Nine Months | | |
|-------------------------|---------------|---------------|--------|---------------|---------------|--------|
| | Ended | | % | Ended | | % |
| | September 30, | September 30, | | September 30, | September 30, | |
| Average Revenue per Car | 2015 | 2014 | Change | 2015 | 2014 | Change |
| Agricultural Products | \$ 3,793 | \$ 3,836 | (1) % | \$ 3,825 | \$ 3,828 | - % |
| Automotive | 2,469 | 2,590 | (5) | 2,516 | 2,600 | (3) |
| Chemicals | 3,165 | 3,249 | (3) | 3,239 | 3,261 | (1) |
| Coal | 2,259 | 2,362 | (4) | 2,254 | 2,323 | (3) |
| Industrial Products | 3,073 | 3,195 | (4) | 3,179 | 3,195 | (1) |
| Intermodal [a] | 1,166 | 1,260 | (7) | 1,169 | 1,245 | (6) |
| Average | \$ 2,229 | \$ 2,331 | (4) % | \$ 2,265 | \$ 2,328 | (3) % |

[a] Each intermodal container or trailer equals one carload.

Agricultural Products – Lower fuel surcharge and volume declines, partially offset by core pricing gains, decreased freight revenue from agricultural shipments in the third quarter and year-to-date periods of 2015 compared to 2014. Grain shipments decreased 11% and 10% in the third quarter and year-to-date periods of 2015 compared to 2014. The strength of the U.S. dollar, lower grain commodity prices, and higher worldwide inventories contributed to the reduction in overall demand in both periods.

Automotive – Freight revenue from automotive shipments increased compared to the third quarter and year-to-date periods of 2014. Higher volume and core price improvements, partially offset by reduced fuel

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surcharge revenue, resulted in increased freight revenue for both periods. Higher automotive production and sales levels during the third quarter and year-to-date periods drove the volume growth.

Chemicals – Lower fuel surcharge revenue and volume declines more than offset core price improvements as freight revenue from chemicals in the third quarter and year-to-date periods of 2015 decreased compared to 2014. Crude oil shipments declined as a result of the drop in crude oil prices and resulting production declines from various shale formations. Other market factors, including regional pricing differences for various types of crude oil also had an impact on Gulf Coast shipments. Lower fertilizer shipments also drove freight revenue down for the third quarter and year-to-date periods of 2015. Strength in export plastics markets in both periods helped offset the decline in crude oil and fertilizer shipments.

Coal – Lower volume and fuel surcharge revenue partially offset by core pricing gains resulted in a decline in freight revenue from coal shipments in the third quarter and year-to-date periods of 2015 compared to 2014. Shipments out of the Southern Powder River Basin (SPRB) declined 12% in the third quarter of 2015, as a result of depressed coal markets due to low natural gas prices and mine production problems. Shipments out of the SPRB also were negatively impacted as heavy rains in June flooded coal mines and washed out tracks in some areas, impacting both second and third quarter shipments. Shipments out of Colorado and Utah declined more than 30% in both 2015 periods due primarily to lower domestic demand for Colorado and Utah coal. This lower demand was driven by several utilities switching to other fuel sources as a result of lower natural gas prices. In addition, coal exports declined due to a soft global market.

Industrial Products – Freight revenue from industrial products shipments decreased compared to the third quarter and year-to-date periods of 2014. Lower volume and lower ARC due to lower fuel surcharge revenue and the mix of traffic partially offset by core price improvements, resulted in a decrease in freight revenue. Declines in shale drilling activity due to lower oil prices caused non-metallic mineral (primarily frac sand) shipments to decrease for both periods. Steel shipments also declined as a result of reductions in shale drilling activities and increased imports associated with the strength of the U.S. dollar. Low commodity prices for lumber and the strong U.S. dollar resulted in inventory reductions that reduced lumber shipments in both periods.

Intermodal – Lower fuel surcharge revenue and volume declines partially offset by core price improvement resulted in a decline in freight revenue from intermodal shipments in the third quarter and year-to-date periods of 2015 compared to the same periods in 2014. Third quarter volume levels from international traffic decreased 9% as the supply chain disruptions stemming from the West Coast port labor negotiations earlier this year resulted in retailers building up inventories in the first half of 2015 to a 5-year high. In the third quarter, retailers curtailed orders in an effort to reduce inventories. Year-to-date, international shipments declined 7% resulting from third quarter activity. Domestic volume increased 1% and 4% in the third quarter and year-to-date periods, respectively, driven by continued conversions from trucks and new premium services.

Mexico Business – Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business decreased 4% to \$554 million in the third quarter of 2015 compared to the same period in 2014. Year-to-date, revenue decreased 4% to \$1.7 billion compared to 2014. Volume levels were down 1% and 2% compared to third quarter and year-to-date periods of 2014, respectively, resulting from declines in shipments of intermodal and industrial products partially offset by growth in automotive and chemical shipments. Reduced agricultural products shipments also contributed to the year-to-date declines in volume.

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Operating Expenses

| Millions | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------------------------|--|----------|-------------|---------------------------------------|-----------|-------------|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Compensation and benefits | \$ 1,267 | \$ 1,287 | (2) % | \$ 3,941 | \$ 3,787 | 4 % |
| Purchased services and materials | 589 | 650 | (9) | 1,832 | 1,893 | (3) |
| Fuel | 484 | 882 | (45) | 1,589 | 2,726 | (42) |
| Depreciation | 507 | 481 | 5 | 1,495 | 1,415 | 6 |
| Equipment and other rents | 302 | 310 | (3) | 925 | 938 | (1) |
| Other | 205 | 242 | (15) | 689 | 696 | (1) |
| Total | \$ 3,354 | \$ 3,852 | (13) % | \$ 10,471 | \$ 11,455 | (9) % |

Operating expenses decreased \$498 million and \$984 million in the third quarter and nine-month periods, respectively, compared to 2014. In both periods, significantly lower fuel prices and cost savings from lower volumes drove the decreases, but were partially offset by wage inflation and depreciation expense. We also benefited from productivity savings in the third quarter compared to 2014. For the nine-month period compared to 2014, a larger workforce, higher property taxes and an increase in locomotive material expense partially offset the impact of lower fuel prices and volume-related savings. In addition, the first nine months of 2014 included first quarter weather-related costs of approximately \$35 million.

Compensation and Benefits – Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. For the third quarter, expenses decreased 2%, driven by lower volume-related costs, productivity gains, and a smaller workforce (excluding employees associated with capital project work). Wage inflation, including increased pension expense partially offset these decreases. For the nine-month period, lower volume-related costs were more than offset by general wage inflation and increased hiring and training expenses related to a larger workforce earlier in the year. Weather-related costs in the first quarter of 2014 also impacted the nine-month year-over-year comparison.

Purchased Services and Materials – Expense for purchased services and materials includes the costs of services purchased from outside contractors and other service providers (including equipment maintenance and contract expenses incurred by our subsidiaries for external transportation services); materials used to maintain the Railroad's lines, structures, and equipment; costs of operating facilities jointly used by UPRR and other railroads; transportation and lodging for train crew employees; trucking and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Purchased services and materials decreased 9% and 3% in the third quarter and year-to-date periods of 2015, respectively, when compared to the same periods of 2014. The primary driver was lower volume-related costs, including a decrease in external transportation expenses incurred by our

logistics subsidiaries. For the third quarter, expenses also decreased due to lower locomotive and freight car repair costs.

Fuel – Fuel includes locomotive fuel and fuel for highway and non-highway vehicles and heavy equipment. Locomotive diesel fuel prices, which averaged \$1.81 per gallon (including taxes and transportation costs) in the third quarter of 2015, compared to \$3.01 per gallon in the same period in 2014, decreased expenses \$313 million. In addition, fuel costs were lower as gross-ton miles decreased 8% in the third quarter. The fuel consumption rate (c-rate), computed as gallons of fuel consumed divided by gross ton-miles in thousands, increased 1% compared to the third quarter of 2014. Decreases in heavier, more fuel-efficient shipments, which generally move from a single source to a single destination, drove the gross-ton mile decrease and the fuel consumption rate increase. For the nine month period, lower locomotive diesel fuel prices that averaged \$1.92 per gallon in 2015 compared to \$3.08 per gallon in 2014, decreased expenses by \$937 million.

Depreciation – The majority of depreciation relates to road property, including rail, ties, ballast, and other track material. A higher depreciable asset base, reflecting higher ongoing capital spending, increased depreciation expense in the third quarter and year-to-date periods of 2015 compared to 2014. This increase was partially offset by our recent depreciation studies that resulted in lower depreciation rates for some asset classes.

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Equipment and Other Rents – Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; and office and other rentals. Equipment and other rents expense in the third quarter and year-to-date periods of 2015 decreased 3% and 1% respectively, compared to the same periods in 2014. The decrease was mainly driven by the decrease in overall volume levels and lower locomotive lease expenses.

Other – Other expenses include state and local taxes; freight, equipment and property damage; utilities, insurance, personal injury, environmental, employee travel, telephone and cellular, computer software, bad debt and other general expenses. Other costs in the third quarter decreased 15% from 2014 due to lower freight, equipment, property damage, and other general expenses. Year-to-date, expenses decreased 1%, driven by lower equipment and property damage expenses and personal injury expense. Higher property taxes mostly offset these decreases.

Non-Operating Items

| Millions | Three Months Ended | | | Nine Months Ended | | |
|------------------|--------------------|-------|-----|-------------------|---------|-----|
| | September 30, | | % | September 30, | | % |
| | 2015 | 2014 | | 2015 | 2014 | |
| Other income | \$ 30 | \$ 20 | 50 | \$ 198 | \$ 80 | F |
| Interest expense | (157) | (144) | 9 | (458) | (415) | 10 |
| Income taxes | (781) | (836) | (7) | (2,219) | (2,296) | (3) |

Other Income – Other income increased in the third quarter of 2015 compared to 2014 due to higher gains from real estate sales and lower environmental costs on non-operating property in 2015. For the nine month period, other income increased as a result of a \$113 million gain from a real estate sale in the second quarter.

Interest Expense – Interest expense increased in the third quarter of 2015 compared to 2014 due to an increased weighted-average debt level of \$13.3 billion in 2015 compared to \$11.2 billion in 2014, partially offset by a lower effective interest rate of 4.8% compared to 5.2%. Year-to-date, the increase in weighted-average debt level to \$12.7 billion in 2015 from \$10.6 billion in 2014 drove the increase in interest expense for 2015 compared to the same period of 2014, partially offset by a lower effective interest rate of 4.9% compared to 5.4%.

Income Taxes – Income taxes were lower in the third quarter and year-to-date periods of 2015 compared to 2014, driven by lower pre-tax income. Our effective tax rates for third quarter 2015 and 2014 were 37.5% and 37.9%,

respectively. Our 2015 year-to-date effective tax rate was 37.8% compared to 38.0% in 2014.

OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report a number of key performance measures weekly to the AAR. We provide this data on our website at www.up.com/investor/aar-stb_reports/index.htm.

Operating/Performance Statistics

Railroad performance measures are included in the table below:

| | Three Months | | | Nine Months | | |
|--------------------------------------|-----------------|--------|----------|-----------------|--------|----------|
| | Ended | | | Ended | | |
| | September 30, % | | | September 30, % | | |
| | 2015 | 2014 | Change | 2015 | 2014 | Change |
| Average train speed (miles per hour) | 25.6 | 23.8 | 8 % | 24.9 | 24.1 | 3 % |
| Average terminal dwell time (hours) | 28.7 | 29.7 | (3) % | 29.2 | 30.1 | (3) % |
| Gross ton-miles (billions) | 238.0 | 260.0 | (8) % | 702.8 | 752.6 | (7) % |
| Revenue ton-miles (billions) | 125.6 | 140.6 | (11) % | 368.3 | 407.9 | (10) % |
| Operating ratio | 60.3 | 62.3 | (2.0)pts | 63.1 | 64.2 | (1.1)pts |
| Employees (average) | 47,515 | 47,550 | - % | 48,446 | 46,922 | 3 % |

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Average Train Speed – Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Average train speed for the third quarter and year-to-date periods of 2015, as reported to the AAR, improved 8% and 3%, respectively, compared to the same period in 2014. Velocity gains resulted from lower volumes, improved network fluidity and a strong resource position. More favorable weather conditions in the first quarter of 2015 also contributed to the improvement in our year-to-date average train speed.

Average Terminal Dwell Time – Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time improves asset utilization and service. Average terminal dwell time in both the third quarter and year-to-date periods of 2015 improved 3%, compared to the same periods of 2014, reflecting the impact of lower volume and improved network operations.

Gross and Revenue Ton-Miles – Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles and revenue ton-miles decreased 8% and 11%, respectively, during the third quarter of 2015 compared to 2014, resulting from a 6% decrease in carloadings. Year-to-date, gross ton-miles and revenue ton-miles decreased 7% and 10%, respectively, compared to the same period of 2014, resulting from a 5% decrease in carloadings. Changes in commodity mix drove the variances in year-over-year declines between gross ton-miles, revenue ton-miles and carloads.

Operating Ratio – Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our third quarter operating ratio improved 2.0 points to 60.3% in 2015 versus 2014 as core pricing gains, the impact of lower fuel prices, resource realignments, and productivity gains more than offset the impact of lower volume and inflation. Year-to-date, our operating ratio of 63.1% improved 1.1 points compared to the same period in 2014.

Employees – Employee levels in the third quarter were flat compared to the same period in 2014. Reductions in employees in training and our transportation employee work force were offset by an increase in capital project work. Year-to-date, employee levels increased 3% year-over-year driven by more employees in training and an increase in capital project work. More employees were in training as a result of the number of transportation employees hired during the last half of 2014 and early 2015 to handle expected volume increases, and who continued receiving training in 2015.

Debt to Capital / Adjusted Debt to Capital

| Millions, Except Percentages | Sep. 30, Dec. 31, | |
|------------------------------|-------------------|-----------|
| | 2015 | 2014 |
| Debt (a) | \$ 13,319 | \$ 11,480 |
| Equity | 20,599 | 21,189 |
| Capital (b) | \$ 33,918 | \$ 32,669 |
| Debt to capital (a/b) | 39.3% | 35.1% |

| Millions, Except Percentages | Sep. 30, Dec. 31, | |
|---------------------------------------|-------------------|-----------|
| | 2015 | 2014 |
| Debt | \$ 13,319 | \$ 11,480 |
| Net present value of operating leases | 2,719 | 2,902 |
| Unfunded pension and OPEB | 455 | 523 |
| Adjusted debt (a) | 16,493 | 14,905 |
| Equity | 20,599 | 21,189 |
| Adjusted capital (b) | \$ 37,092 | \$ 36,094 |
| Adjusted debt to capital (a/b) | 44.5% | 41.3% |

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K, and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating the total amount of leverage in our capital structure, including off-balance sheet lease obligations, which we generally incur in connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating

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leases were discounted using 4.9% at September 30, 2015, and 5.3% at December 31, 2014. The discount rate reflects our effective interest rate. We monitor the ratio of adjusted debt to capital as we manage our capital structure to balance cost-effective and efficient access to the capital markets with the Corporation's overall cost of capital. Adjusted debt to capital should be considered in addition to, rather than as a substitute for, debt to capital. The tables above provide reconciliations from debt to capital to adjusted debt to capital.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

Cash Flows

Millions,

| for the Nine Months Ended September 30, | 2015 | 2014 |
|---|----------|----------|
| Cash provided by operating activities | \$ 5,625 | \$ 5,358 |
| Cash used in investing activities | (3,250) | (3,325) |
| Cash used in financing activities | (2,883) | (1,578) |
| Net change in cash and cash equivalents | \$ (508) | \$ 455 |

Operating Activities

The timing of tax payments and changes in working capital in the first nine months of 2015 combined to increase cash provided by operating activities compared to the same period of 2014.

Investing Activities

Higher proceeds from assets sales in the first nine months of 2015 decreased cash used in investing activities compared to the same period in 2014.

The table below details cash capital investments:

| Millions, for the Nine Months Ended September 30, | 2015 | 2014 |
|--|----------|----------|
| Rail and other track material | \$ 597 | \$ 566 |
| Ties | 359 | 323 |
| Ballast | 185 | 153 |
| Other [a] | 291 | 213 |
| Total road infrastructure replacements | 1,432 | 1,255 |
| Line expansion and other capacity projects | 384 | 348 |
| Commercial facilities | 167 | 121 |
| Total capacity and commercial facilities | 551 | 469 |
| Locomotives and freight cars [b] | 869 | 797 |
| Positive train control | 300 | 277 |
| Technology and other [c] | 171 | 428 |
| Total cash capital investments | \$ 3,323 | \$ 3,226 |

[a]Other includes bridges and tunnels, signals, other road assets, and road work equipment.

[b]Locomotives and freight cars include early lease buyouts.

[c]Technology and other includes the early buyout of our headquarters building operating lease in 2014.

Capital Plan

As previously announced, we intend to make new capital investments of approximately \$4.2 billion in 2015, which includes Positive Train Control (PTC), but excludes lease buyouts. We may revise our capital plan if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments.

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Financing Activities

Cash used in financing activities increased in the first nine months of 2015 compared to the same period of 2014. An increase of \$691 million in dividends paid, an increase of \$483 million for the repurchase of shares under our common stock repurchase program and a decrease of \$345 million in debt issued more than offset a decrease of \$242 million in debt repaid. The higher dividend payments primarily were a result of adjusting the dividend payable dates to align the timing of the quarterly dividend declaration and payment within the quarter. Aligning the quarterly dividend declaration and payment resulted in two payments in the first quarter of 2015: the fourth quarter 2014 dividend of \$438 million, which was paid on January 2, 2015, as well as the first quarter 2015 dividend of \$484 million, which was paid on March 30, 2015. The second quarter 2015 dividend of \$479 million was paid on June 30, 2015, and the third quarter 2015 dividend of \$476 million was paid on September 30, 2015. Higher dividends per share also contributed to the increase in dividends paid.

Free Cash Flow – Free cash flow is defined as cash provided by operating activities less cash used in investing activities and dividends paid. Aligning the quarterly dividend declaration and payment decreased free cash flow in the first nine months of 2015.

Free cash flow is not considered a financial measure under accounting principles generally accepted in the U.S. (GAAP) by SEC Regulation G and Item 10 of SEC Regulation S-K and may not be defined and calculated by other companies in the same manner. We believe free cash flow is important to management and investors in evaluating our financial performance and measures our ability to generate cash without additional external financings. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities. The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure):

| Millions, for the Nine Months Ended September 30, | 2015 | 2014 |
|--|----------|----------|
| Cash provided by operating activities | \$ 5,625 | \$ 5,358 |
| Cash used in investing activities | (3,250) | (3,325) |
| Dividends paid | (1,877) | (1,186) |
| Free cash flow | \$ 498 | \$ 847 |

Credit Facilities – At September 30, 2015, we had \$1.7 billion of credit available under our revolving credit facility (the facility), which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility during the nine months ended September 30, 2015. Commitment fees and interest rates

payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The facility matures in May 2019 under a five-year term and requires the Corporation to maintain a debt-to-net-worth coverage ratio. At September 30, 2015, and December 31, 2014 (and at all times during the periods presented), we were in compliance with this covenant.

The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At September 30, 2015, the debt-to-net-worth coverage ratio allowed us to carry up to \$41.2 billion of debt (as defined in the facility), and we had \$13.4 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a \$125 million cross-default provision and a change-of-control provision.

During the three and nine months ended September 30, 2015, we did not issue or repay any commercial paper, and at September 30, 2015, we had no commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and, unless we change the terms of our commercial paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the facility.

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Shelf Registration Statement and Significant New Borrowings – We filed an automatic shelf registration statement with the SEC that became effective on February 9, 2015. The Board of Directors authorized the issuance of up to \$4 billion of debt securities, replacing the \$4 billion authorized under our shelf registration filed in February 2013, which was fully utilized after our January 2015 debt offering noted below. Under our current shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

During the nine months ended September 30, 2015, we issued the following unsecured, fixed-rate debt securities under our shelf registrations:

| Date | Description of Securities |
|------------------|--|
| January 29, 2015 | \$250 million of 1.80% Notes due February 1, 2020 |
| | \$450 million of 3.375% Notes due February 1, 2035 |
| | \$450 million of 3.875% Notes due February 1, 2055 |
| June 19, 2015 | \$400 million of 2.250% Notes due June 19, 2020 |
| | \$300 million of 3.250% Notes due August 15, 2025 |

We used the net proceeds from the offerings for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At September 30, 2015, we had remaining authority to issue up to \$3.3 billion of debt securities under our current shelf registration.

Equipment Trust – On May 12, 2015, UPRR consummated a pass-through (P/T) financing, whereby a P/T trust was created, which issued \$399 million of P/T trust certificates with a stated interest rate of 2.695%. The P/T trust certificates will mature on May 12, 2027. The proceeds from the issuance of the P/T trust certificates were used to purchase equipment trust certificates to be issued by UPRR to finance the acquisition of 182 locomotives. The equipment trust certificates are secured by a lien on the locomotives. The \$399 million is classified as debt due after one year in our Condensed Consolidated Statements of Financial Position.

Receivables Securitization Facility – The Railroad maintains a \$650 million, 3-year receivables securitization facility maturing in July 2017 under which it sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse, an

undivided interest in accounts receivable to investors. The investors have no recourse to the Railroad's other assets except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

The amount outstanding under the facility was \$400 million at both September 30, 2015, and December 31, 2014. The facility was supported by \$1.1 billion and \$1.2 billion of accounts receivable as collateral at September 30, 2015, and December 31, 2014, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amount the Railroad is allowed to maintain under the facility, with a maximum of \$650 million, may fluctuate based on the availability of eligible receivables and is directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the facility would not materially change.

The costs of the receivables securitization facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$1 million for both the three months ended September 30, 2015, and 2014, and \$4 million and \$3 million for the nine months ended September 30, 2015, and 2014, respectively.

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Share Repurchase Program

Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2017, replacing our previous repurchase program. As of September 30, 2015, we repurchased a total of \$15.4 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased under this repurchase program during this reporting period.

| | Number of Shares | | Average Price Paid | |
|--|-------------------|------------|--------------------|----------|
| | Purchased 2015 | 2014 | 2015 | 2014 |
| First quarter | 6,881,455 | 7,640,000 | \$ 117.28 | \$ 89.43 |
| Second quarter | 7,975,100 | 8,320,000 | 104.62 | 96.84 |
| Third quarter | 13,800,700 | 8,347,000 | 89.65 | 102.54 |
| Total | 28,657,255 | 24,307,000 | \$ 100.45 | \$ 96.47 |
| Remaining number of shares that may be repurchased under current authority | | | 59,299,345 | |

Management's assessments of market conditions and other pertinent factors guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

From October 1, 2015, through October 21, 2015, we repurchased 2.0 million shares at an aggregate cost of approximately \$188 million.

Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial Commitments

As described in the notes to the Condensed Consolidated Financial Statements and as referenced in the tables below, we have contractual obligations and commercial commitments that may affect our financial condition. However, based on our assessment of the underlying provisions and circumstances of our contractual obligations and commercial commitments, including material sources of off-balance sheet and structured finance arrangements, there is no known trend, demand, commitment, event, or uncertainty that is reasonably likely to occur that would have a material adverse effect on our consolidated results of operations, financial condition, or liquidity. In addition, our commercial obligations, financings, and commitments are customary transactions that are similar to those of other

comparable corporations, particularly within the transportation industry.

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The following tables identify material obligations and commitments as of September 30, 2015:

| Contractual Obligations Millions | Total | Oct. 1 Payments Due by Dec. 31, through | | | | | After | |
|-------------------------------------|-----------|--|----------|----------|----------|----------|-----------|-------|
| | | Dec. 31, 2015 | 2016 | 2017 | 2018 | 2019 | 2019 | Other |
| Debt [a] | \$ 20,329 | \$ 94 | \$ 959 | \$ 1,390 | \$ 894 | \$ 936 | \$ 16,056 | \$ - |
| Operating leases [b] | 3,416 | 73 | 485 | 438 | 366 | 329 | 1,725 | - |
| Capital lease obligations [c] | 1,726 | 28 | 240 | 244 | 221 | 207 | 786 | - |
| Purchase obligations [d] | 4,353 | 989 | 2,113 | 352 | 274 | 227 | 366 | 32 |
| Other postretirement benefits [e] | 419 | 11 | 44 | 44 | 45 | 46 | 229 | - |
| Income tax contingencies [f] | 73 | 12 | - | - | - | - | - | 61 |
| Total contractual obligations | \$ 30,316 | \$ 1,207 | \$ 3,841 | \$ 2,468 | \$ 1,800 | \$ 1,745 | \$ 19,162 | \$ 93 |

[a]Excludes capital lease obligations of \$1,380 million and unamortized discount of (\$578) million. Includes an interest component of \$7,812 million.

[b] Includes leases for locomotives, freight cars, other equipment, and real estate.

[c]Represents total obligations, including interest component of \$346 million.

[d]Purchase obligations include locomotive maintenance contracts; purchase commitments for fuel purchases, locomotives, ties, ballast, and rail; and agreements to purchase other goods and services. For amounts where we cannot reasonably estimate the year of settlement, they are reflected in the Other column.

[e]Includes estimated other postretirement, medical, and life insurance payments and payments made under the unfunded pension plan for the next ten years.

[f]Income tax contingencies reflect the recorded liabilities and assets for unrecognized tax benefits, including interest and penalties, if any, as of September 30, 2015. For amounts where the year of settlement is uncertain, they are reflected in the Other column.

| Other Commercial Commitments Millions | Total | Amount of Commitment Expiration Oct. 1 by Dec. 31, through | | | | | After | |
|--|----------|--|------|------|------|----------|-------|--|
| | | Dec. 31, 2015 | 2016 | 2017 | 2018 | 2019 | 2019 | |
| Credit facilities [a] | \$ 1,700 | \$ - | \$ - | \$ - | \$ - | \$ 1,700 | \$ - | |

| | | | | | | | |
|---|----------|-------|-------|--------|-------|----------|-------|
| Receivables securitization facility [b] | 650 | - | - | 650 | - | - | - |
| Guarantees [c] | 56 | 3 | 9 | 10 | 11 | 8 | 15 |
| Standby letters of credit [d] | 36 | 7 | 29 | - | - | - | - |
| Total commercial commitments | \$ 2,442 | \$ 10 | \$ 38 | \$ 660 | \$ 11 | \$ 1,708 | \$ 15 |

[a] None of the credit facility was used as of September 30, 2015.

[b] \$400 million of the receivables securitization facility was utilized as of September 30, 2015, which is accounted for as debt. The full program matures in July 2017.

[c] Includes guaranteed obligations related to our equipment financings and affiliated operations.

[d] None of the letters of credit were drawn upon as of September 30, 2015.

OTHER MATTERS

Asserted and Unasserted Claims – Various claims and lawsuits are pending against us and certain of our subsidiaries. We cannot fully determine the effect of all asserted and unasserted claims on our consolidated results of operations, financial condition, or liquidity. To the extent possible, we have recorded a liability where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities and insurance recoveries previously recorded for these matters.

Governmental Regulation – As previously reported in our Annual Report on Form 10-K for fiscal year 2014, as filed with the SEC on February 6, 2015, operations of the Railroad are subject to the regulations of the Federal Railroad Administration (FRA) and other federal and state agencies. On January 12, 2010, the FRA issued initial rules governing installation of Positive Train Control (PTC) by the end of 2015. The

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final regulation was issued on August 8, 2014. Although still under development, PTC is a collision avoidance system of technologies intended to override engineer controlled locomotives and stop train-to-train and overspeed accidents, misaligned switch derailments, and unauthorized entry to work zones. In August 2012, the FRA provided Congress with a status report regarding implementation of PTC. This report indicated that the rail industry will likely achieve only partial deployment of PTC by the current deadline due to significant technical developments, training and deployment, and the delay in issuing the final rule. From 2009 through 2014, we invested approximately \$1.6 billion in the development of PTC, with projected spending of approximately \$400 million in 2015.

As subsequently reported in a Current Report on Form 8-K and filed with the SEC on September 10, 2015, we indicated that it will be necessary for the Railroad to embargo all TIH (toxic by inhalation gas) traffic, as well as passenger traffic, on its railroad lines unless Congress extends the December 31, 2015, implementation deadline for PTC installation. This plan was communicated in letters delivered to Senator John Thune, Chairman of the U.S. Senate Committee on Commerce, Science and Transportation, and to the American Chemistry Council (ACC), The Fertilizer Institute (TFI), and The Chlorine Institute (TCI), responding to requests for information regarding PTC installation and the impacts if the PTC extension is not granted. As previously announced on several occasions, the Railroad, along with most of the rail industry, will not meet this deadline. It remains uncertain whether Congress will extend the implementation deadline or the extent to which the FRA will use its discretion under the law to impose fines after the deadline date for traffic moving on certain lines without the installation of PTC. If imposed, potential fines would be dependent upon the interpretation, and the discretion, of the FRA. At this point, it is too uncertain to estimate the probability, or the amount of total potential fines. However, the amount could be material if applied broadly over a long time period. While we remain hopeful that the deadline will be extended, we also recognize that TIH customers need time to prepare in case the deadline is not extended soon.

On September 29, 2015, the ACC, TFI and TCI filed an action in the United States District Court for the District of Columbia (the District Court) requesting declaratory and injunctive relief from the court to enjoin the Railroad, along with 14 additional railroads, from refusing to transport TIH materials due to the inability to implement PTC by the December 31, 2015, deadline. On September 30, 2015, the ACC, TFI and TCI filed a similar action with the Surface Transportation Board (STB). Under the procedural schedules established by the District Court and the STB, the parties will file motions and other pleadings through early November. The District Court is scheduled to hold a hearing on the motions on November 20, 2015. The STB has not scheduled a hearing at this time.

Indemnities – We are contingently obligated under a variety of indemnification arrangements, although in some cases the extent of our potential liability is limited, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Accounting Pronouncements – In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2017. ASU 2014-09 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 (ASU 2015-03), Interest - Imputation of Interest (Subtopic 835-30). ASU 2015-03 changes the presentation of debt issuance costs in the financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will be reported as interest expense. This standard is effective for annual reporting periods beginning after December 15, 2015. ASU 2015-03 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

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CAUTIONARY INFORMATION

Certain statements in this report, and statements in other reports or information filed or to be filed with the SEC (as well as information included in oral statements or other written statements made or to be made by us), are, or will be, forward-looking statements as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements and information include, without limitation, the statements and information set forth under the caption “Liquidity and Capital Resources” in Item 2 regarding our capital plan and statements under the caption “Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial Commitments;” and statements related to Governmental Regulation and positive train control under the caption “Other Matters.” Forward-looking statements and information also include any other statements or information in this report regarding: expectations as to operational or service improvements; expectations regarding the effectiveness of steps taken or to be taken to improve operations, service, infrastructure improvements, and transportation plan modifications; expectations as to cost savings, revenue growth, and earnings; the time by which goals, targets, or objectives will be achieved; projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, future economic performance, and general economic conditions; proposed new products and services; estimates of costs relating to environmental remediation and restoration; estimates and expectations regarding tax matters, expectations that claims, litigation, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated results of operations, financial condition, or liquidity and any other similar expressions concerning matters that are not historical facts.

Forward-looking statements and information reflect the good faith consideration by management of currently available information, and may be based on underlying assumptions believed to be reasonable under the circumstances. However, such information and assumptions (and, therefore, such forward-looking statements and information) are or may be subject to variables or unknown or unforeseeable events or circumstances over which management has little or no influence or control. The Risk Factors in Item 1A of our 2014 Annual Report on Form 10-K, filed February 6, 2015, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements, and this report, including this Item 2, should be read in conjunction with these Risk Factors. To the extent circumstances require or we deem it otherwise necessary, we will update or amend these risk factors in a Form 10-Q or Form 8-K. Information regarding new risk factors or material changes to our risk factors, if any, is set forth in Item 1A of Part II of this report. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2014 Annual Report on Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer (CEO) and Executive Vice President – Finance and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based upon that evaluation, the CEO and the CFO concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective to provide reasonable

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assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Additionally, the CEO and CFO determined that there were no changes to the Corporation's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings, claims, and litigation that occur in connection with our business. We routinely assess our liabilities and contingencies in connection with these matters based upon the latest available information and, when necessary, we seek input from our third-party advisors when making these assessments. Consistent with SEC rules and requirements, we describe below material pending legal proceedings (other than ordinary routine litigation incidental to our business), material proceedings known to be contemplated by governmental authorities, other proceedings arising under federal, state, or local environmental laws and regulations (including governmental proceedings involving potential fines, penalties, or other monetary sanctions in excess of \$100,000), and such other pending matters that we may determine to be appropriate.

Environmental Matters

We receive notices from the EPA and state environmental agencies alleging that we are or may be liable under federal or state environmental laws for remediation costs at various sites throughout the U.S., including sites on the Superfund National Priorities List or state superfund lists. We cannot predict the ultimate impact of these proceedings and suits because of the number of potentially responsible parties involved, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and the speculative nature of remediation costs.

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies

– Environmental, Item 7 of our 2014 Annual Report on Form 10-K.

Other Matters

Antitrust Litigation - As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 20 rail shippers (many of whom are represented by the same law firms) filed virtually identical

antitrust lawsuits in various federal district courts against us and four other Class I railroads in the U.S. Currently, UPRR and three other Class I railroads are the named defendants in the lawsuit. The original plaintiff filed the first of these claims in the U.S. District Court in New Jersey on May 14, 2007. The number of complaints reached a total of 30. These suits allege that the named railroads engaged in price-fixing by establishing common fuel surcharges for certain rail traffic.

In addition to suits filed by direct purchasers of rail transportation services, a few of the suits involved plaintiffs alleging that they are or were indirect purchasers of rail transportation and sought to represent a purported class of indirect purchasers of rail transportation services that paid fuel surcharges. These complaints added allegations under state antitrust and consumer protection laws. On November 6, 2007, the Judicial Panel on Multidistrict Litigation ordered that all of the rail fuel surcharge cases be transferred to Judge Paul Friedman of the U.S. District Court in the District of Columbia for coordinated or consolidated pretrial proceedings. Following numerous hearings and rulings, Judge Friedman dismissed the complaints of the indirect purchasers, which the indirect purchasers appealed. On April 16, 2010, the U.S. Court of Appeals for the District of Columbia affirmed Judge Friedman's ruling dismissing the indirect purchasers' claims based on various state laws.

On June 21, 2012, Judge Friedman issued a decision that certified a class of plaintiffs with eight named plaintiff representatives. The decision included in the class all shippers that paid a rate-based fuel

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surcharge to any one of the defendant railroads for rate-unregulated rail transportation from July 1, 2003, through December 31, 2008. This was a procedural ruling, which did not affirm any of the claims asserted by the plaintiffs and does not address the ability of the railroad defendants to disprove the allegations made by the plaintiffs. On July 5, 2012, the defendant railroads filed a petition with the U.S. Court of Appeals for the District of Columbia requesting that the court review the class certification ruling. On August 28, 2012, a panel of the Circuit Court of the District of Columbia referred the petition to a merits panel of the court to address the issues in the petition and to address whether the district court properly granted class certification. The Circuit Court heard oral arguments on May 3, 2013. On August 9, 2013, the Circuit Court vacated the class certification decision and remanded the case to the district court to reconsider the class certification decision in light of a recent Supreme Court case and incomplete consideration of errors in the expert report of the plaintiffs. On October 31, 2013, Judge Friedman approved a schedule agreed to by all parties for consideration of the class certification issue on remand.

On October 2, 2014, the plaintiffs informed Judge Friedman that their economic expert had a previously undisclosed conflict of interest. Judge Friedman ruled on November 26, 2014, that the plaintiffs had until April 1, 2015, to file a supplemental expert report to support their motion for class certification. The plaintiffs filed their supplemental expert report on April 1, 2015. Judge Friedman issued a scheduling order on June 19, 2015, scheduling a class certification hearing for November 2, 2015. Judge Friedman then vacated the hearing date in an Order on September 28, 2015 because of the potential impact resulting from the decision of the U.S. Supreme Court case, *Tyson Foods v. Bouaphakeo*, related to class action certification and damages, which will be heard on November 10, 2015. The Order requires the parties to file a joint schedule and briefing statement within fourteen days after the U.S. Supreme Court decision in the *Tyson Foods* matter.

As we reported in our Current Report on Form 8-K, filed on June 10, 2011, the Railroad received a complaint filed in the U.S. District Court for the District of Columbia on June 7, 2011, by Oxbow Carbon & Minerals LLC and related entities (Oxbow). The complaint named the Railroad and one other U.S. Class I Railroad as defendants and alleged that the named railroads engaged in price-fixing and monopolistic practices in connection with fuel surcharge programs and pricing of shipments of certain commodities, including coal and petroleum coke. The complaint sought injunctive relief and payment of damages of over \$30 million, and other unspecified damages, including treble damages. Some of the allegations in the complaint were addressed in the existing fuel surcharge litigation referenced above. The complaint also included additional unrelated allegations regarding alleged limitations on competition for shipments of Oxbow's commodities. Judge Friedman, who presides over the fuel surcharge matter described above, also presides over this matter. On February 26, 2013, Judge Friedman granted the defendants' motion to dismiss Oxbow's complaint for failure to state properly a claim under the antitrust laws. However, the dismissal was without prejudice to refile the complaint. Judge Friedman approved a schedule that allowed Oxbow to file a revised complaint, which Oxbow filed on May 1, 2013. The amended complaint alleges that UPRR and one other Class I railroad violated Sections 1 and 2 of the Sherman Antitrust Act and that UPRR also breached a tolling agreement between Oxbow and UPRR. Oxbow claims that it paid more than \$50 million in wrongfully imposed fuel surcharges. UPRR and the other railroad filed separate motions to dismiss the Oxbow revised complaint on July 1, 2013. Judge Friedman heard oral arguments on the motions to dismiss filed by UPRR and the other railroad on January 8, 2015. Judge Friedman denied the motions to dismiss on February 24, 2015. This was a procedural ruling, which did not affirm any of the claims asserted by Oxbow and does not affect the ability of the railroad defendants to disprove the allegations made by Oxbow. UPRR filed its answer to Oxbow's complaint on March 24, 2015, and the parties have commenced discovery.

We deny the allegations that our fuel surcharge programs violate the antitrust laws or any other laws. We believe that these lawsuits are without merit, and we will vigorously defend our actions. Therefore, we currently believe that these matters will not have a material adverse effect on any of our results of operations, financial condition, and liquidity.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our 2014 Annual Report on Form 10-K.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities –The following table presents common stock repurchases during each month for the third quarter of 2015:

| Period | Total Number of Shares Purchased [a] | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program [b] | Maximum Number of Shares That May Be Purchased Under Current Authority [b] |
|------------------------|--------------------------------------|------------------------------|--|--|
| Jul. 1 through Jul. 31 | 3,137,788 | \$ 96.67 | 3,137,700 | 69,962,345 |
| Aug. 1 through Aug. 31 | 4,118,000 | 89.25 | 4,118,000 | 65,844,345 |
| Sep. 1 through Sep. 30 | 6,546,691 | 86.53 | 6,545,000 | 59,299,345 |
| Total | 13,802,479 | \$ 89.65 | 13,800,700 | N/A |

[a]Total number of shares purchased during the quarter includes 1,779 shares delivered or attested to UPC by employees to pay stock option exercise prices, satisfy excess tax withholding obligations for stock option exercises or vesting of retention units, and pay withholding obligations for vesting of retention shares.

[b]Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2017. These repurchases may be made on the open market or through other transactions. Our management has sole discretion with respect to determining the timing and amount of these transactions.

Dividend Restrictions – Our revolving credit facility includes a debt-to-net worth covenant that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was \$13.9 billion and \$15.4 billion at September 30, 2015, and December 31, 2014, respectively.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No. Description

Filed with
this
Statement

| | |
|-------|--|
| 12(a) | Ratio of Earnings to Fixed Charges for the Three Months Ended September 30, 2015 and 2014. |
| 12(b) | Ratio of Earnings to Fixed Charges for the Nine Months Ended September 30, 2015 and 2014. |
| 31(a) | Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz. |
| 31(b) | Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert M. Knight, Jr. |

32 Certifications
Pursuant to 18
U.S.C. Section
1350, as
Adopted
pursuant to
Section 906 of
the
Sarbanes-Oxley
Act of 2002 –
Lance M. Fritz
and Robert M.
Knight, Jr.

101 eXtensible
Business
Reporting
Language
(XBRL)
documents
submitted
electronically:
101.INS (XBRL
Instance
Document),
101.SCH
(XBRL
Taxonomy
Extension
Schema
Document),
101.CAL
(XBRL
Calculation
Linkbase
Document),
101.LAB
(XBRL
Taxonomy
Label Linkbase
Document),
101.DEF
(XBRL
Taxonomy
Definition
Linkbase
Document) and
101.PRE
(XBRL
Taxonomy
Presentation
Linkbase

Document). The following financial and related information from Union Pacific Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2015 (filed with the SEC on October 22, 2015), is formatted in XBRL and submitted electronically herewith: (i) Condensed Consolidated Statements of Income for the periods ended September 30, 2015 and 2014, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Financial Position at September 30, 2015 and December 31, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the periods

ended
September 30,
2015 and 2014,
(v) Condensed
Consolidated
Statements of
Changes in
Common
Shareholders'
Equity for the
periods ended
September 30,
2015 and 2014,
and (vi) the
Notes to the
Condensed
Consolidated
Financial
Statements.

Incorporated by Reference

3(a) Revised Articles
of Incorporation
of UPC, as
amended and
restated through
June 27, 2011,
and as further
amended May
15, 2014, are
incorporated
herein by
reference to
Exhibit 3(a) to
the Corporation's
Quarterly
Report on Form
10-Q for the
quarter ended
June 30, 2014.

3(b) By-Laws of
UPC, as
amended,
effective May
14, 2009, are
incorporated
herein by
reference to
Exhibit 3.2 to
the Corporation's
Current Report
on Form 8-K

dated May 15,
2009.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 22, 2015

UNION PACIFIC CORPORATION (Registrant)

By /s/ Robert M. Knight, Jr.
Robert M. Knight, Jr.
Executive Vice President – Finance and
Chief Financial Officer
(Principal Financial Officer)

By /s/ Todd M. Rynaski
Todd M. Rynaski
Vice President and Controller
(Principal Accounting Officer)