

UNION PACIFIC CORP
Form 10-Q
October 18, 2012
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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, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

UTAH
(State or other jurisdiction of

13-2626465
(I.R.S. Employer

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incorporation or organization)

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 12, 2012, there were 470,397,162 shares of the Registrant's Common Stock outstanding.

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AND SUBSIDIARY COMPANIES

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Table of Contents**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,*

| <i>for the Three Months Ended September 30,</i> | 2012 | 2011 |
|---|-------------|-------------|
| Operating revenues: | | |
| Freight revenues | \$ 5,019 | \$ 4,836 |
| Other revenues | 324 | 265 |
| Total operating revenues | 5,343 | 5,101 |
| Operating expenses: | | |
| Compensation and benefits | 1,188 | 1,193 |
| Fuel | 880 | 916 |
| Purchased services and materials | 542 | 506 |
| Depreciation | 447 | 408 |
| Equipment and other rents | 300 | 293 |
| Other | 200 | 207 |
| Total operating expenses | 3,557 | 3,523 |
| Operating income | 1,786 | 1,578 |
| Other income (Note 6) | 28 | 17 |
| Interest expense | (137) | (142) |
| Income before income taxes | 1,677 | 1,453 |
| Income taxes | (635) | (549) |
| Net income | \$ 1,042 | \$ 904 |
| Share and Per Share (Note 8): | | |
| Earnings per share - basic | \$ 2.21 | \$ 1.87 |
| Earnings per share - diluted | \$ 2.19 | \$ 1.85 |
| Weighted average number of shares - basic | 472.0 | 484.2 |
| Weighted average number of shares - diluted | 475.2 | 488.1 |
| Dividends declared per share | \$ 0.60 | \$ 0.475 |

Condensed Consolidated Statements of Comprehensive Income (Unaudited)*Union Pacific Corporation and Subsidiary Companies**Millions,*

| <i>for the Three Months Ended September 30,</i> | 2012 | 2011 |
|---|-------------|-------------|
| Net income | \$ 1,042 | \$ 904 |
| Other comprehensive income/(loss), net of tax: | | |

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| | | |
|--|-----------------|--------|
| Defined benefit plans | 38 | (1) |
| Foreign currency translation | 8 | (12) |
| Other comprehensive income/(loss), net [a] | 46 | (13) |
| Comprehensive income | \$ 1,088 | \$ 891 |

[a] Net of deferred taxes of \$28 million and \$(7) million during the three months ended September 30, 2012 and 2011, respectively. The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents**Condensed Consolidated Statements of Income (Unaudited)***Union Pacific Corporation and Subsidiary Companies**Millions, Except Per Share Amounts,*

| <i>for the Nine Months Ended September 30,</i> | 2012 | 2011 |
|--|---------------|-------------|
| Operating revenues: | | |
| Freight revenues | \$ 14,755 | \$ 13,679 |
| Other revenues | 921 | 770 |
| Total operating revenues | 15,676 | 14,449 |
| Operating expenses: | | |
| Compensation and benefits | 3,550 | 3,526 |
| Fuel | 2,688 | 2,646 |
| Purchased services and materials | 1,610 | 1,497 |
| Depreciation | 1,307 | 1,204 |
| Equipment and other rents | 895 | 878 |
| Other | 606 | 591 |
| Total operating expenses | 10,656 | 10,342 |
| Operating income | 5,020 | 4,107 |
| Other income (Note 6) | 65 | 58 |
| Interest expense | (407) | (431) |
| Income before income taxes | 4,678 | 3,734 |
| Income taxes | (1,771) | (1,406) |
| Net income | \$ 2,907 | \$ 2,328 |
| Share and Per Share (Note 8): | | |
| Earnings per share - basic | \$ 6.13 | \$ 4.78 |
| Earnings per share - diluted | \$ 6.08 | \$ 4.74 |
| Weighted average number of shares - basic | 474.5 | 487.4 |
| Weighted average number of shares - diluted | 477.9 | 491.5 |
| Dividends declared per share | \$ 1.80 | \$ 1.33 |

Condensed Consolidated Statements of Comprehensive Income (Unaudited)*Union Pacific Corporation and Subsidiary Companies**Millions,*

| <i>for the Nine Months Ended September 30,</i> | 2012 | 2011 |
|--|-------------|-------------|
| Net income | \$ 2,907 | \$ 2,328 |
| Other comprehensive income/(loss), net of tax: | | |
| Defined benefit plans | 31 | - |
| Foreign currency translation | 8 | 2 |
| Other comprehensive income/(loss), net [a] | 39 | 2 |
| Comprehensive income | \$ 2,946 | \$ 2,330 |

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[a] Net of deferred taxes of \$27 million and \$2 million during the nine months ended September 30, 2012 and 2011, respectively. The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents**Condensed Consolidated Statements of Financial Position (Unaudited)***Union Pacific Corporation and Subsidiary Companies*

| <i>Millions, Except Share and Per Share Amounts</i> | <i>September 30, 2012</i> | <i>December 31, 2011</i> |
|--|-------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,130 | \$ 1,217 |
| Accounts receivable, net (Note 10) | 1,583 | 1,401 |
| Materials and supplies | 680 | 614 |
| Current deferred income taxes (Note 7) | 293 | 306 |
| Other current assets | 260 | 189 |
| | | |
| Total current assets | 3,946 | 3,727 |
| | | |
| Investments | 1,235 | 1,175 |
| Net properties (Note 11) | 41,617 | 39,934 |
| Other assets | 272 | 260 |
| | | |
| Total assets | \$ 47,070 | \$ 45,096 |
| Liabilities and Common Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and other current liabilities (Note 12) | \$ 3,161 | \$ 3,108 |
| Debt due within one year (Note 14) | 713 | 209 |
| | | |
| Total current liabilities | 3,874 | 3,317 |
| | | |
| Debt due after one year (Note 14) | 8,773 | 8,697 |
| Deferred income taxes (Note 7) | 12,858 | 12,368 |
| Other long-term liabilities | 2,016 | 2,136 |
| Commitments and contingencies (Note 16) | | |
| | | |
| Total liabilities | 27,521 | 26,518 |
| | | |
| Common shareholders' equity: | | |
| Common shares, \$2.50 par value, 800,000,000 authorized; 554,558,212 and 554,270,763 issued; 471,131,047 and 479,929,530 outstanding, respectively | | |
| | 1,386 | 1,386 |
| Paid-in-surplus | 4,097 | 4,031 |
| Retained earnings | 21,560 | 19,508 |
| Treasury stock | (6,479) | (5,293) |
| Accumulated other comprehensive loss (Note 9) | (1,015) | (1,054) |
| | | |
| Total common shareholders' equity | 19,549 | 18,578 |
| | \$ 47,070 | \$ 45,096 |

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Total liabilities and common shareholders' equity

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

Table of Contents**Condensed Consolidated Statements of Cash Flows (Unaudited)***Union Pacific Corporation and Subsidiary Companies**Millions,**for the Nine Months Ended September 30,*

| | <i>2012</i> | <i>2011</i> |
|---|-------------|-------------|
| Operating Activities | | |
| Net income | \$ 2,907 | \$ 2,328 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 1,307 | 1,204 |
| Deferred income taxes and unrecognized tax benefits | 490 | 721 |
| Other operating activities, net | (72) | (111) |
| Changes in current assets and liabilities: | | |
| Accounts receivable, net | (182) | (240) |
| Materials and supplies | (66) | (73) |
| Other current assets | (71) | 136 |
| Accounts payable and other current liabilities | 53 | 369 |
| Cash provided by operating activities | 4,366 | 4,334 |
| Investing Activities | | |
| Capital investments | (2,876) | (2,218) |
| Proceeds from asset sales | 55 | 51 |
| Acquisition of equipment pending financing | (217) | (85) |
| Proceeds from sale of assets financed | 217 | 85 |
| Other investing activities, net | (45) | (74) |
| Cash used in investing activities | (2,866) | (2,241) |
| Financing Activities | | |
| Common share repurchases (Note 17) | (1,179) | (1,036) |
| Dividends paid | (860) | (607) |
| Debt issued (Note 14) | 695 | 486 |
| Debt repaid | (250) | (188) |
| Debt exchange | - | (272) |
| Other financing activities, net | 7 | 85 |
| Cash used in financing activities | (1,587) | (1,532) |
| Net change in cash and cash equivalents | (87) | 561 |
| Cash and cash equivalents at beginning of year | 1,217 | 1,086 |
| Cash and cash equivalents at end of period | \$ 1,130 | \$ 1,647 |
| Supplemental Cash Flow Information | | |
| Non-cash investing and financing activities: | | |
| Cash dividends declared but not yet paid | \$ 279 | \$ 225 |
| Capital lease financings | 233 | 154 |
| Capital investments accrued but not yet paid | 120 | 116 |
| Common shares repurchased but not yet paid | 48 | - |
| Cash paid for: | | |
| Income taxes, net of refunds | \$ (1,097) | \$ (274) |
| Interest, net of amounts capitalized | (474) | (495) |

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

Table of Contents**Condensed Consolidated Statements of Changes in Common Shareholders' Equity (Unaudited)***Union Pacific Corporation and Subsidiary Companies*

| <i>Millions</i> | <i>Common</i> | <i>Treasury</i> | <i>Paid-in-</i> | | <i>Retained</i> | <i>Treasury</i> | <i>AOCI</i> | <i>Total</i> |
|--|---------------|-----------------|--------------------------------|-----------------|------------------|-------------------|-------------------|------------------|
| | <i>Shares</i> | <i>Shares</i> | <i>Common</i> <i>Shares</i> | <i>Surplus</i> | <i>Earnings</i> | <i>Stock</i> | <i>[a]</i> | |
| Balance at January 1, 2011 | 553.9 | (62.3) | \$ 1,385 | \$ 3,985 | \$ 17,154 | \$ (4,027) | \$ (734) | \$ 17,763 |
| Comprehensive income: | | | | | | | | |
| Net income | | | - | - | 2,328 | - | - | 2,328 |
| Other comp. income | | | - | - | - | - | 2 | 2 |
| Conversion, stock option exercises, forfeitures, and other | 0.4 | 2.3 | 1 | 35 | - | 121 | - | 157 |
| Share repurchases (Note 17) | - | (10.9) | - | - | - | (1,036) | - | (1,036) |
| Cash dividends declared (\$1.33 per share) | - | - | - | - | (649) | - | - | (649) |
| Balance at September 30, 2011 | 554.3 | (70.9) | \$ 1,386 | \$ 4,020 | \$ 18,833 | \$ (4,942) | \$ (732) | \$ 18,565 |
| Balance at January 1, 2012 | 554.3 | (74.4) | \$ 1,386 | \$ 4,031 | \$ 19,508 | \$ (5,293) | \$ (1,054) | \$ 18,578 |
| Comprehensive income: | | | | | | | | |
| Net income | | | - | - | 2,907 | - | - | 2,907 |
| Other comp. income | | | - | - | - | - | 39 | 39 |
| Conversion, stock option exercises, forfeitures, and other | 0.3 | 1.7 | - | 66 | - | 41 | - | 107 |
| Share repurchases (Note 17) | - | (10.8) | - | - | - | (1,227) | - | (1,227) |
| Cash dividends declared (\$1.80 per share) | - | - | - | - | (855) | - | - | (855) |
| Balance at September 30, 2012 | 554.6 | (83.5) | \$ 1,386 | \$ 4,097 | \$ 21,560 | \$ (6,479) | \$ (1,015) | \$ 19,549 |

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

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

Table of Contents**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, 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). Our Consolidated Statement of Financial Position at December 31, 2011, is derived from audited financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2011 Annual Report on Form 10-K. The results of operations for the nine months ended September 30, 2012, are not necessarily indicative of the results for the entire year ending December 31, 2012.

The Condensed Consolidated Financial Statements are presented in accordance with GAAP as codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

2. Accounting Pronouncements

On January 1, 2012, we adopted 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05) which requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. Also, in December of 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12).

3. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although revenue is analyzed by commodity group, we analyze the net 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:

| <i>Millions</i> | <i>Three Months Ended</i> | | <i>Nine Months Ended</i> | |
|--------------------------|---------------------------|-------------|--------------------------|-------------|
| | <i>September 30,</i> | | <i>September 30,</i> | |
| | 2012 | 2011 | 2012 | 2011 |
| Agricultural | \$ 783 | \$ 814 | \$ 2,495 | \$ 2,470 |
| Automotive | 436 | 379 | 1,341 | 1,102 |
| Chemicals | 841 | 720 | 2,404 | 2,087 |
| Coal | 1,058 | 1,112 | 2,922 | 3,014 |
| Industrial Products | 879 | 863 | 2,659 | 2,356 |
| Intermodal | 1,022 | 948 | 2,934 | 2,650 |
| Total freight revenues | 5,019 | 4,836 | 14,755 | 13,679 |
| Other revenues | 324 | 265 | 921 | 770 |
| Total operating revenues | \$ 5,343 | \$ 5,101 | \$ 15,676 | \$ 14,449 |

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported are outside the U.S.

Table of Contents**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:

| <i>Millions</i> | <i>Three Months Ended</i> <i>September 30,</i> | | <i>Nine Months Ended</i> <i>September 30,</i> | |
|--|---|-------|--|-------|
| | 2012 | 2011 | 2012 | 2011 |
| Stock-based compensation, before tax: | | | | |
| Stock options | \$ 5 | \$ 5 | \$ 14 | \$ 14 |
| Retention awards | 20 | 17 | 60 | 51 |
| Total stock-based compensation, before tax | \$ 25 | \$ 22 | \$ 74 | \$ 65 |
| Excess tax benefits from equity compensation plans | \$ 33 | \$ 4 | \$ 86 | \$ 71 |

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:

| <i>Weighted-Average Assumptions</i> | 2012 | 2011 |
|---|-----------------|----------|
| Risk-free interest rate | 0.8% | 2.3% |
| Dividend yield | 2.1% | 1.6% |
| Expected life (years) | 5.3 | 5.3 |
| Volatility | 36.8% | 35.9% |
| Weighted-average grant-date fair value of options granted | \$ 31.29 | \$ 28.45 |

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 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, 2012 is presented below:

| | <i>Options</i> <i>(thous.)</i> | <i>Weighted-</i> <i>Average</i> <i>Exercise Price</i> | <i>Weighted-Average</i> <i>Remaining</i> <i>Contractual</i> <i>Term</i> | <i>Aggregate</i> <i>Intrinsic Value</i> <i>(millions)</i> |
|--|-----------------------------------|---|--|---|
| Outstanding at January 1, 2012 | 7,042 | \$ 52.16 | 5.5 yrs. | \$ 379 |
| Granted | 598 | 114.73 | N/A | N/A |
| Exercised | (2,802) | 45.43 | N/A | N/A |
| Forfeited or expired | (36) | 71.92 | N/A | N/A |
| Outstanding at September 30, 2012 | 4,802 | \$ 63.73 | 5.8 yrs. | \$ 263 |
| Vested or expected to vest at September 30, 2012 | 4,746 | \$ 63.41 | 5.8 yrs. | \$ 262 |
| Options exercisable at September 30, 2012 | 3,587 | \$ 52.10 | 4.9 yrs. | \$ 238 |

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, 2012 are subject to performance or market-based vesting conditions.

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At September 30, 2012, there was \$20 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:

| <i>Millions</i> | <i>Three Months Ended</i> <i>September 30,</i> | | <i>Nine Months Ended</i> <i>September 30,</i> | |
|---|---|-------------|--|-------------|
| | 2012 | <i>2011</i> | 2012 | <i>2011</i> |
| Intrinsic value of stock options exercised | \$ 101 | \$ 11 | \$ 204 | \$ 176 |
| Cash received from option exercises | 22 | 8 | 67 | 114 |
| Treasury shares repurchased for employee payroll taxes | (8) | (3) | (24) | (44) |
| Tax benefit realized from option exercises | 39 | 4 | 78 | 67 |
| Aggregate grant-date fair value of stock options vested | - | - | 16 | 19 |

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, 2012 were as follows:

| | <i>Shares</i> <i>(thous.)</i> | <i>Weighted-Average</i> |
|---------------------------------|----------------------------------|------------------------------|
| | | <i>Grant-Date Fair Value</i> |
| Nonvested at January 1, 2012 | 2,556 | \$ 63.20 |
| Granted | 449 | 114.50 |
| Vested | (573) | 62.30 |
| Forfeited | (69) | 63.46 |
| Nonvested at September 30, 2012 | 2,363 | \$ 73.16 |

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, 2012, there was \$79 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.6 years.

Performance Retention Awards In February 2012, 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 2010 and February 2011, 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.

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 2012 grant were as follows:

| | |
|--|---------|
| Dividend per share per quarter | \$ 0.60 |
| Risk-free interest rate at date of grant | 0.3% |

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Changes in our performance retention awards during the nine months ended September 30, 2012 were as follows:

| | <i>Shares (thous.)</i> | <i>Weighted-Average Grant-Date Fair Value</i> |
|---------------------------------|----------------------------|---|
| Nonvested at January 1, 2012 | 1,204 | \$ 63.62 |
| Granted | 328 | 108.76 |
| Vested | (349) | 44.63 |
| Forfeited | (103) | 61.23 |
| Nonvested at September 30, 2012 | 1,080 | \$ 83.68 |

At September 30, 2012, there was \$41 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.3 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 and, if necessary, amortized as pension or OPEB expense.

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

| <i>Millions</i> | <i>Three Months Ended September 30,</i> | | <i>Nine Months Ended September 30,</i> | |
|--------------------------------|---|-------------|--|-------------|
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| Service cost | \$ 13 | \$ 11 | \$ 40 | \$ 33 |
| Interest cost | 36 | 35 | 106 | 107 |
| Expected return on plan assets | (47) | (45) | (142) | (135) |
| Amortization of: | | | | |
| Prior service cost | - | 1 | - | 2 |
| Actuarial loss | 21 | 17 | 63 | 52 |
| Net periodic pension cost | \$ 23 | \$ 19 | \$ 67 | \$ 59 |

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The components of our net periodic OPEB cost/(benefit) were as follows:

| <i>Millions</i> | <i>Three Months Ended</i> | | <i>Nine Months Ended</i> | |
|----------------------------------|---------------------------|-------------|--------------------------|-------------|
| | <i>September 30,</i> | | <i>September 30,</i> | |
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| Service cost | \$ - | \$ 1 | \$ 2 | \$ 2 |
| Interest cost | 4 | 4 | 11 | 12 |
| Amortization of: | | | | |
| Prior service (credit) | (5) | (9) | (13) | (27) |
| Actuarial loss | 4 | 3 | 9 | 10 |
| Net periodic OPEB cost/(benefit) | \$ 3 | \$ (1) | \$ 9 | \$ (3) |

Cash Contributions

For the nine months ended September 30, 2012, we made \$100 million of cash contributions to the qualified pension plan. Any additional contributions made in the fourth quarter will be based on cash generated from operations and financial market considerations. All contributions made to the qualified pension plan during the nine months ended September 30, 2012 were voluntary and were made with cash generated from operations. 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, 2012, we do not have minimum cash funding requirements for 2012.

6. Other Income

Other income included the following:

| <i>Millions</i> | <i>Three Months</i> | | <i>Nine Months</i> | |
|--|----------------------|-------------|----------------------|-------------|
| | <i>Ended</i> | | <i>Ended</i> | |
| | <i>September 30,</i> | | <i>September 30,</i> | |
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| Rental income | \$ 21 | \$ 20 | \$ 62 | \$ 59 |
| Net gain on non-operating asset dispositions | 11 | 6 | 23 | 11 |
| Interest income | 1 | - | 2 | 2 |
| Early extinguishment of debt | - | - | (2) | - |
| Non-operating environmental costs and other | (5) | (9) | (20) | (14) |
| Total | \$ 28 | \$ 17 | \$ 65 | \$ 58 |

7. Income Taxes

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 1999, although some interest calculations remain open for years prior to 1999. The IRS has completed its examinations and issued notices of deficiency for tax years 1999 through 2008. We disagree with many of their proposed adjustments, and we are at IRS Appeals for these years. Additionally, several state tax authorities are examining our state income tax returns for years 2003 through 2010.

In the third quarter of 2011, we reached an agreement in principle with the IRS to resolve all of the issues related to tax years 1999 through 2004, except for calculations of interest. We anticipate we will have a final closing agreement with the IRS within the next 12 months. Once executed, this agreement should result in an immaterial reduction of income tax expense.

At September 30, 2012, our liability for unrecognized tax benefits was \$115 million. We classified \$32 million of this amount as current, the majority of which is in anticipation of a final settlement for tax years 1999 through 2004.

Table of Contents**8. Earnings Per Share**

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

| <i>Millions, Except Per Share Amounts</i> | <i>Three Months Ended September 30,</i> | | <i>Nine Months Ended September 30,</i> | |
|---|---|-------------|--|-------------|
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| Net income | \$ 1,042 | \$ 904 | \$ 2,907 | \$ 2,328 |
| Weighted-average number of shares outstanding: | | | | |
| Basic | 472.0 | 484.2 | 474.5 | 487.4 |
| Dilutive effect of stock options | 1.6 | 2.3 | 1.9 | 2.7 |
| Dilutive effect of retention shares and units | 1.6 | 1.6 | 1.5 | 1.4 |
| Diluted | 475.2 | 488.1 | 477.9 | 491.5 |
| Earnings per share basic | \$ 2.21 | \$ 1.87 | \$ 6.13 | \$ 4.78 |
| Earnings per share diluted | \$ 2.19 | \$ 1.85 | \$ 6.08 | \$ 4.74 |
| Stock options excluded as their inclusion would be antidilutive | 0.6 | 0.6 | 0.5 | 0.5 |

9. Accumulated Other Comprehensive Income/(Loss)

The after-tax components of accumulated other comprehensive loss were as follows:

| <i>Millions</i> | <i>Dec. 31,</i> | |
|------------------------------|--------------------------|-------------|
| | <i>Sep. 30, 2012</i> | <i>2011</i> |
| Defined benefit plans | \$ (973) | \$ (1,004) |
| Foreign currency translation | (40) | (48) |
| Derivatives | (2) | (2) |
| Total | \$ (1,015) | \$ (1,054) |

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, 2012 and December 31, 2011, our accounts receivable were reduced by \$4 million and \$9 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, 2012 and December 31, 2011, receivables classified as other assets were reduced by allowances of \$35 million and \$41 million, respectively.

Receivables Securitization Facility Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was \$600 million at September 30, 2012 and December 31, 2011, respectively. The value of the outstanding undivided interest held by investors under the facility was \$100 million at September 30, 2012 and December 31, 2011, respectively, and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year. The value of the undivided interest held by investors was supported by \$1.3 billion and \$1.1 billion of accounts receivable at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012 and December 31, 2011, the value of the interest retained by UPRI was \$1.3 billion and \$1.1 billion, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

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The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of September 30, 2012. Should our

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credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad collected approximately \$5.1 billion and \$4.9 billion during the three months ended September 30, 2012 and 2011, respectively, and \$14.9 billion and \$13.8 billion during the nine months ended September 30, 2012 and 2011, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$1 million for the three months ended September 30, 2012 and 2011, and \$3 million for the nine months ended September 30, 2012 and 2011.

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.

In July 2012, the receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

11. Properties

The following tables list the major categories of property and equipment, as well as the weighted average composite depreciation rate for each category:

| <i>Millions, Except Percentages</i> | | <i>Accumulated</i> | <i>Net Book</i> | <i>Depreciation</i> |
|-------------------------------------|-------------|---------------------|-----------------|----------------------|
| <i>As of September 30, 2012</i> | <i>Cost</i> | <i>Depreciation</i> | <i>Value</i> | <i>Rate for 2012</i> |
| Land | \$ 5,093 | \$ N/A | \$ 5,093 | N/A |
| Road: | | | | |
| Rail and other track material [a] | 13,029 | 4,716 | 8,313 | 3.4% |
| Ties | 8,317 | 2,138 | 6,179 | 2.9% |
| Ballast | 4,346 | 1,064 | 3,282 | 2.9% |
| Other [b] | 14,609 | 2,559 | 12,050 | 2.6% |
| Total road | 40,301 | 10,477 | 29,824 | 3.0% |
| Equipment: | | | | |
| Locomotives | 7,273 | 3,245 | 4,028 | 6.1% |
| Freight cars | 1,987 | 1,032 | 955 | 3.5% |
| Work equipment and other | 530 | 80 | 450 | 6.9% |
| Total equipment | 9,790 | 4,357 | 5,433 | 5.6% |
| Technology and other | 637 | 276 | 361 | 12.5% |
| Construction in progress | 906 | - | 906 | N/A |
| Total | \$ 56,727 | \$ 15,110 | \$ 41,617 | N/A |

[a] Includes a weighted-average composite depreciation rate for rail in high-density traffic corridors.

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

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| <i>As of December 31, 2011</i> | <i>Cost</i> | <i>Accumulated Depreciation</i> | <i>Net Book Value</i> | <i>Depreciation Rate for 2011</i> |
|-----------------------------------|-------------|-------------------------------------|---------------------------|---------------------------------------|
| Land | \$ 5,098 | \$ N/A | \$ 5,098 | N/A |
| Road: | | | | |
| Rail and other track material [a] | 12,461 | 4,592 | 7,869 | 3.3% |
| Ties | 7,987 | 2,028 | 5,959 | 2.9% |
| Ballast | 4,178 | 1,008 | 3,170 | 3.0% |
| Other [b] | 14,118 | 2,502 | 11,616 | 2.6% |
| Total road | 38,744 | 10,130 | 28,614 | 2.9% |
| Equipment: | | | | |
| Locomotives | 6,502 | 3,003 | 3,499 | 5.7% |
| Freight cars | 1,957 | 1,061 | 896 | 3.5% |
| Work equipment and other | 529 | 57 | 472 | 6.5% |
| Total equipment | 8,988 | 4,121 | 4,867 | 5.3% |
| Technology and other | 610 | 259 | 351 | 12.3% |
| Construction in progress | 1,004 | - | 1,004 | N/A |
| Total | \$ 54,444 | \$ 14,510 | \$ 39,934 | N/A |

[a] Includes a weighted-average composite depreciation rate for rail in high-density traffic corridors.

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

12. Accounts Payable and Other Current Liabilities

| <i>Millions</i> | <i>Sep. 30, 2012</i> | <i>Dec. 31, 2011</i> |
|--|--------------------------|--------------------------|
| Accounts payable | \$ 886 | \$ 819 |
| Income and other taxes | 613 | 482 |
| Accrued wages and vacation | 374 | 363 |
| Dividends payable | 279 | 284 |
| Accrued casualty costs | 220 | 249 |
| Interest payable | 126 | 197 |
| Equipment rents payable | 101 | 90 |
| Other | 562 | 624 |
| Total accounts payable and other current liabilities | \$ 3,161 | \$ 3,108 |

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.

Determination of Fair Value We determine the fair values of our derivative financial instrument positions based upon current fair values as quoted by recognized dealers or the present value of expected future cash flows.

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Interest Rate Cash Flow Hedges We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At both September 30, 2012 and December 31, 2011, we had reductions of \$2 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of September 30, 2012 and December 31, 2011, we had no interest rate cash flow hedges outstanding.

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, 2012, the fair value of total debt was \$11.4 billion, approximately \$1.9 billion more than the carrying value. At December 31, 2011, the fair value of total debt was \$10.5 billion, approximately \$1.6 billion more than the carrying value. The fair value of the company'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 September 30, 2012 and December 31, 2011, approximately \$203 million and \$303 million, respectively, of fixed-rate 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, 2012, we had \$1.8 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, 2012. 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 our senior unsecured debt ratings. The facility requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At September 30, 2012, and December 31, 2011 (and at all times during the year), 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, 2012, the debt-to-net-worth coverage ratio allowed us to carry up to \$39.1 billion of debt (as defined in the facility), and we had \$10.1 billion of debt (as defined in the facility) outstanding at that date. Under our 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 \$75 million cross-default provision and a change-of-control provision.

During the nine months ended September 30, 2012, we issued and repaid commercial paper of \$50 million. At September 30, 2012, 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 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.

On May 22, 2012, we borrowed \$100 million under a 4-year-term loan (the loan). The loan has a floating rate based on London Interbank Offered Rates, plus a spread, and is prepayable in whole or in part without a premium prior to maturity. The agreement documenting the loan has provisions similar to our revolving credit facility, including identical debt-to-net-worth covenant and change-of-control provisions and similar customary default provisions. The agreement does not include any other financial restrictions, credit rating triggers, or any other provision that would require us to post collateral.

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On June 11, 2012, we issued \$300 million of 2.95% unsecured fixed-rate notes and \$300 million of 4.30% unsecured fixed-rate notes under our shelf registration statement. The 2.95% notes will mature on January 15, 2023, and the 4.30% notes will mature on June 15, 2042. Proceeds from this offering are for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program.

During the third quarter of 2012, we acquired 269 locomotives by exercising early buy-out rights in certain operating and capital lease agreements. Following the acquisition of the locomotives, we sold them to financing parties and entered into capital lease financing agreements with these parties. We did not recognize any gains or losses as a result of these transactions. Capital lease obligations totaling \$229 million are reported in our Consolidated Statements of Financial Position as debt at September 30, 2012.

At both September 30, 2012 and December 31, 2011, we reclassified as long-term debt approximately \$100 million of debt due within one year that we intend to refinance. This reclassification reflects our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Debt Redemption On April 28, 2012, we redeemed all \$100 million of our outstanding 5.70% Tooele County, Utah Hazardous Waste Treatment Revenue Bonds due November 1, 2026. The redemption resulted in an early extinguishment charge of \$2 million in the second quarter of 2012.

Receivables Securitization Facility As of both September 30, 2012 and December 31, 2011, we recorded \$100 million as secured debt under our receivables securitization facility. (See further discussion of our receivables securitization facility in Note 10).

Debt Exchange On June 23, 2011, we exchanged \$857 million of various outstanding notes and debentures due between 2013 and 2019 (Existing Notes) for \$750 million of 4.163% notes (New Notes) due July 15, 2022, plus cash consideration of approximately \$267 million and \$17 million for accrued and unpaid interest on the Existing Notes. In accordance with ASC 470-50-40, Debt-Modifications and Extinguishments-Derecognition, this transaction was accounted for as a debt exchange, as the exchanged debt instruments are not considered to be substantially different. The cash consideration was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. No gain or loss was recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debt holders totaled approximately \$6 million and were included in interest expense during the three months ended June 30, 2011.

The following table lists the outstanding notes and debentures that were exchanged:

| <i>Millions</i> | <i>Principal amount exchanged</i> |
|----------------------------|---------------------------------------|
| 7.875% Notes due 2019 | \$ 196 |
| 5.450% Notes due 2013 | 50 |
| 5.125% Notes due 2014 | 45 |
| 5.375% Notes due 2014 | 55 |
| 5.700% Notes due 2018 | 277 |
| 5.750% Notes due 2017 | 178 |
| 7.000% Debentures due 2016 | 38 |
| 5.650% Notes due 2017 | 18 |
| Total | \$ 857 |

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, including our headquarters building) 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,

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fixed-price purchase options available 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 price options are not considered to be potentially significant to the VIE's. The future minimum lease payments associated with the VIE leases totaled \$3.7 billion as of September 30, 2012.

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; however, to the extent possible, where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated, we have recorded a liability. 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. Approximately 90% of the recorded liability is related to asserted claims and approximately 10% is related to unasserted claims at September 30, 2012. 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 \$348 to \$377 million. We record an accrual at the low end of the range as no amount of loss 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,

| <i>for the Nine Months Ended September 30,</i> | 2012 | 2011 |
|---|-------------|-------------|
| Beginning balance | \$ 368 | \$ 426 |
| Current year accruals | 89 | 99 |
| Changes in estimates for prior years | (40) | (51) |
| Payments | (69) | (83) |
| Ending balance at September 30 | \$ 348 | \$ 391 |
| Current portion, ending balance at September 30 | \$ 97 | \$ 140 |

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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 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 22% of the recorded liability related to asserted claims and approximately 78% related to unasserted claims at September 30, 2012.

Our asbestos-related liability activity was as follows:

Millions,

for the Nine Months Ended September 30,

| | <i>2012</i> | <i>2011</i> |
|---|-------------|-------------|
| Beginning balance | \$ 147 | \$ 162 |
| Accruals | - | - |
| Payments | (5) | (7) |
| Ending balance at September 30 | \$ 142 | \$ 155 |
| Current portion, ending balance at September 30 | \$ 9 | \$ 11 |

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, 2012, and December 31, 2011.

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 32 sites that are the subject of actions taken by the U.S. government, 17 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. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At September 30, 2012, none of our environmental liability was discounted, while less than 1% of our environmental liability was discounted at 2.0% at December 31, 2011.

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Our environmental liability activity was as follows:

Millions,

| for the Nine Months Ended September 30, | 2012 | 2011 |
|---|--------|--------|
| Beginning balance | \$ 172 | \$ 213 |
| Accruals | 35 | 26 |
| Payments | (32) | (61) |
| Ending balance at September 30 | \$ 175 | \$ 178 |
| Current portion, ending balance at September 30 | \$ 49 | \$ 49 |

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 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 Statement of Financial Position.

Guarantees At September 30, 2012, we were contingently liable for \$309 million in guarantees. We have recorded a liability of \$2 million and \$3 million for the fair value of these obligations as of September 30, 2012, and December 31, 2011, respectively. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, 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 Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, 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, 2012, 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 \$4.2 billion.

Gain Contingency UPRR and Santa Fe Pacific Pipelines (SFPP, a subsidiary of Kinder Morgan Energy Partners, L.P.) currently are parties in a proceeding to resolve the fair market rent payable to UPRR under a 10-year agreement that commenced on January 1, 2004 for pipeline easements on UPRR rights-of-way (*Union Pacific Railroad Company vs. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder*

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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, on September 28, 2011, the judge issued a tentative Statement of Decision, which concluded that SFPP owes back rent to UPRR for the years 2004 through 2011. On May 29, 2012, the court entered judgment, awarding UPRR back rent and prejudgment interest. SFPP is appealing the final judgment. A favorable final judgment may materially affect our results of operations in the period of any monetary recoveries; however, due to the uncertainty regarding the amount and timing of any recovery, including the outcome of SFPP's appeal of this judgment or any subsequent proceeding, we consider this a gain contingency and do not reflect any amounts in the Condensed Consolidated Financial Statements as of September 30, 2012.

17. Share Repurchase Program

Effective April 1, 2011, our Board of Directors authorized the repurchase of 40 million common shares by March 31, 2014, replacing our previous repurchase program. The table below represents shares repurchased in the first quarter of 2011 under our previous repurchase program, and shares repurchased in the second and third quarters of 2011 and the first, second and third quarters of 2012 under the new program.

| | <i>Number of Shares Purchased</i> | | <i>Average Price Paid</i> | |
|--|-----------------------------------|-------------|---------------------------|-------------|
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| First quarter | 3,917,369 | 2,636,178 | \$ 110.64 | \$ 94.10 |
| Second quarter | 3,770,528 | 3,576,399 | 110.02 | 100.75 |
| Third quarter | 3,098,812 | 4,681,535 | 122.13 | 91.45 |
| Total | 10,786,709 | 10,894,112 | \$ 113.72 | \$ 95.14 |
| Remaining number of shares that may yet be repurchased | | | | 17,069,699 |

Management's assessments of market conditions and other pertinent facts 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.

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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, 2012, Compared to

Three and Nine Months Ended September 30, 2011

For purposes of this report, unless the context otherwise requires, all references herein to "UPC", "Corporation", "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 revenue is analyzed by commodity, we analyze the net financial results of the Railroad as one segment due to the integrated nature of the 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 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. 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 2011 Annual Report on Form 10-K. There have not been any significant changes with respect to these policies during the first nine months of 2012.

Table of Contents**RESULTS OF OPERATIONS****Quarterly Summary**

We reported record earnings of \$2.19 per diluted share on net income of \$1.0 billion in the third quarter of 2012 compared to earnings of \$1.85 per diluted share on net income of \$904 million for the third quarter of 2011. Year-to-date, net income was \$2.9 billion versus \$2.3 billion for the same period in 2011. Freight revenues increased \$183 million in the third quarter compared to the same period in 2011 driven by core pricing gains. Our diverse franchise offset lower shipments of coal, agricultural, and industrial products with increases from other market sectors, including strong growth from shale-related (crude oil, frac sand and pipe) and automotive products. Core pricing gains, our ongoing focus on safety, service and network efficiency and continued cost control measures drove best-ever quarterly financial results.

We continued operating an efficient and fluid network, adjusting resources to match significant shifts in our business mix. Average train speed, as reported to the Association of American Railroads (AAR), increased 6% compared to 2011. Efficient operations and relatively mild weather conditions during the third quarter compared favorably to the same period in 2011, during which flooding impacted Midwest operations and extreme heat and drought affected the South. Average terminal dwell time improved during the quarter despite a shift in business mix to more manifest traffic, which requires more switching and increases terminal dwell time. Average rail car inventory decreased 2% in the third quarter due to productivity improvements and ongoing initiatives to reduce the number of cars in our fleet.

Operating Revenues

| <i>Millions</i> | <i>Three Months Ended</i> | | | <i>Nine Months Ended</i> | | |
|------------------|---------------------------|-------------|---------------|--------------------------|-------------|---------------|
| | <i>September 30,</i> | <i>2011</i> | <i>%</i> | <i>September 30,</i> | <i>2011</i> | <i>%</i> |
| | 2012 | | Change | 2012 | | Change |
| Freight revenues | \$ 5,019 | \$ 4,836 | 4% | \$ 14,755 | \$ 13,679 | 8% |
| Other revenues | 324 | 265 | 22 | 921 | 770 | 20 |
| Total | \$ 5,343 | \$ 5,101 | 5% | \$ 15,676 | \$ 14,449 | 8% |

We generate freight revenues by transporting freight or other materials from our six commodity groups. Freight revenues vary with volume (carloads) and average revenue per car (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 our commuter rail operations, and 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. We recognize other revenues as we perform services or meet contractual obligations.

Freight revenues for four of the six commodity groups increased during the third quarter of 2012 compared to 2011, as core pricing gains drove the ARC improvement. Slightly lower volume levels due to declines in coal, agriculture, and steel and other metallic minerals more than offset increases in chemical and automotive shipments. Year-to-date, revenue for five of the six commodity groups increased compared to 2011, driven by 7% higher ARC from core pricing gains and higher fuel cost recoveries. Economic improvements in several market sectors, with particularly strong growth in shale-related, automotive and domestic intermodal shipments, more than offset much lower volumes from coal and agriculture commodities, which reflects current uncertain and mixed economic conditions.

Our fuel surcharge programs (excluding index-based contract escalators that contain some provision for fuel) generated \$633 million and \$1.9 billion in freight revenues in the third quarter and year-to-date periods of 2012, respectively, compared to \$637 million and \$1.6 billion in the same periods of 2011. Lower fuel surcharge recoveries in the third quarter of 2012 compared to the same period of 2011, due to the lag effect of our programs (surcharges trail fluctuations in fuel price by approximately two months),

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more than offset fuel recoveries from the new fuel surcharge provisions in recently renegotiated contracts. Conversely, the lag effect, along with the new fuel surcharge provisions and higher fuel prices, increased fuel surcharge recoveries for the year-to-date period. Additionally, fuel surcharge revenue is not entirely comparable to prior periods due to the continual conversion of portions of our non-regulated traffic to mileage-based fuel surcharge programs.

In the third quarter and year-to-date periods of 2012, other revenues increased from 2011 due primarily to higher revenues at our subsidiaries that broker intermodal and automotive services. Accessorial revenues also increased in the third quarter and year-to-date periods, due to an increase in intermodal shipments.

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

| <i>Freight Revenues</i> | <i>Three Months Ended</i> | | | <i>Nine Months Ended</i> | | |
|-------------------------|---------------------------|-------------|---------------|--------------------------|-------------|---------------|
| | <i>September 30,</i> | | <i>%</i> | <i>September 30,</i> | | <i>%</i> |
| <i>Millions</i> | <i>2012</i> | <i>2011</i> | <i>Change</i> | <i>2012</i> | <i>2011</i> | <i>Change</i> |
| Agricultural | \$ 783 | \$ 814 | (4)% | \$ 2,495 | \$ 2,470 | 1% |
| Automotive | 436 | 379 | 15 | 1,341 | 1,102 | 22 |
| Chemicals | 841 | 720 | 17 | 2,404 | 2,087 | 15 |
| Coal | 1,058 | 1,112 | (5) | 2,922 | 3,014 | (3) |
| Industrial Products | 879 | 863 | 2 | 2,659 | 2,356 | 13 |
| Intermodal | 1,022 | 948 | 8 | 2,934 | 2,650 | 11 |
| Total | \$ 5,019 | \$ 4,836 | 4% | \$ 14,755 | \$ 13,679 | 8% |

| <i>Revenue Carloads</i> | <i>Three Months Ended</i> | | | <i>Nine Months Ended</i> | | |
|-------------------------|---------------------------|-------------|---------------|--------------------------|-------------|---------------|
| | <i>September 30,</i> | | <i>%</i> | <i>September 30,</i> | | <i>%</i> |
| <i>Thousands</i> | <i>2012</i> | <i>2011</i> | <i>Change</i> | <i>2012</i> | <i>2011</i> | <i>Change</i> |
| Agricultural | 218 | 223 | (2)% | 685 | 698 | (2)% |
| Automotive | 181 | 160 | 13 | 551 | 482 | 14 |
| Chemicals | 275 | 233 | 18 | 777 | 689 | 13 |
| Coal | 501 | 572 | (12) | 1,408 | 1,606 | (12) |
| Industrial Products | 299 | 305 | (2) | 905 | 865 | 5 |
| Intermodal [a] | 857 | 848 | 1 | 2,481 | 2,437 | 2 |
| Total | 2,331 | 2,341 | -% | 6,807 | 6,777 | -% |

| <i>Average Revenue per Car</i> | <i>Three Months Ended</i> | | | <i>Nine Months Ended</i> | | |
|--------------------------------|---------------------------|-------------|---------------|--------------------------|-------------|---------------|
| | <i>September 30,</i> | | <i>%</i> | <i>September 30,</i> | | <i>%</i> |
| | <i>2012</i> | <i>2011</i> | <i>Change</i> | <i>2012</i> | <i>2011</i> | <i>Change</i> |
| Agricultural | \$ 3,596 | \$ 3,655 | (2)% | \$ 3,643 | \$ 3,537 | 3% |
| Automotive | 2,407 | 2,364 | 2 | 2,435 | 2,287 | 6 |
| Chemicals | 3,064 | 3,087 | (1) | 3,094 | 3,029 | 2 |
| Coal | 2,111 | 1,945 | 9 | 2,075 | 1,877 | 11 |
| Industrial Products | 2,933 | 2,832 | 4 | 2,938 | 2,724 | 8 |
| Intermodal [a] | 1,192 | 1,119 | 7 | 1,182 | 1,087 | 9 |
| Average | \$ 2,153 | \$ 2,066 | 4% | \$ 2,168 | \$ 2,019 | 7% |

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

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Agricultural Products Lower volume and fuel surcharges, due to the lag impact of our fuel surcharge programs, partially offset by price improvements reduced freight revenue from agricultural shipments in the third quarter of 2012 versus 2011. Weak export demand for U.S. wheat drove an 11% decrease in the third quarter of 2012 versus 2011, as the foreign wheat market improved significantly from last year's weather affected crop. In addition, the severe drought across the U.S. reduced this year's projected crop harvest. The projected decreases in corn supply, coupled with low stocks from last year's crop, led to lower shipments of corn. Lower gasoline demand, reduced exports and higher corn prices decreased ethanol shipments. Price improvements and fuel surcharges more than offset lower volume, as freight

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revenue increased for the year-to-date period of 2012 compared to the same period of 2011. Lower volumes year-to-date reflect weak export demand for wheat partially offset by a strong domestic harvest of fresh potatoes.

Automotive Increased shipments of finished vehicles and automotive parts along with core pricing gains improved automotive freight revenue in the third quarter and year-to-date periods in 2012 from 2011 levels. Fuel surcharges, which also affect freight revenues, declined as a result of our fuel surcharge programs in the third quarter compared to 2011 but increased for the nine-month period. Higher production and sales levels during the third quarter and nine-month period drove the volume growth. In addition, year-to-date shipments in 2012 compared favorably to the same period in 2011 due to lower shipments of international vehicles after the disaster in Japan.

Chemicals Higher volume and core price improvements increased freight revenue from chemicals in the third quarter and nine-month periods of 2012 versus 2011. Due to the lag impact of our fuel surcharge programs, fuel surcharge recoveries were down in the third quarter of 2012 versus 2011, but up for the year-to-date period. Shipments of crude oil from the Bakken and Eagle Ford shale formations to the Gulf Coast drove the increase in shipments of chemicals. In addition, plastics and industrial chemicals shipments increased due to higher demand in both periods of 2012. Partially offsetting the increases were declines in potash due to temporary shutdowns and reduced production at several mines in the first half of 2012.

Coal Lower volume, partially offset by core pricing gains, reduced freight revenue from coal shipments in the third quarter and year-to-date periods of 2012 compared to the same periods in 2011. Shipments of coal from the Southern Powder River Basin (SPRB) mines decreased 13% and 14% from the third quarter and nine-month periods of 2011, respectively. Increased coal stockpiles due to an unseasonably warm winter and low natural gas prices, which caused some displacement of coal in electricity production, led to the volume declines in both periods. Rising summer temperatures during the second and third quarter of 2012 increased demand for coal from the lows experienced in April and May. In addition, the loss of two contracts contributed to lower volumes from the SPRB in both periods. Coal shipments from the Colorado and Utah mines increased 3% and 1% in the third quarter and year-to-date periods versus 2011. Increased export shipments of Colorado and Utah coal in the first nine months of 2012 offset the domestic declines due to higher stockpiles.

Industrial Products Core pricing improvement, partially offset by lower volume and fuel surcharges, as a result of the lag impact of our fuel surcharge programs, increased freight revenue from industrial products in the third quarter of 2012 versus 2011. Volume declines from steel and metallic minerals, due to a weak export market and mine production issues, were partially offset by increases in non-metallic minerals, stone and lumber shipments. Volume gains, core pricing improvement and higher fuel surcharges increased freight revenue in the nine-month period of 2012 versus 2011. Shipments of non-metallic minerals (primarily frac sand), grew in response to more horizontal drilling activity for energy products, for both periods. Despite lower volumes in the third quarter, steel shipments increased year-to-date due to higher demand for steel coils and plate for pipe (primarily for drilling) and auto production. In addition, the mild winter allowed for more construction activity, which continued into the summer months, leading to higher demand for shipments of lumber, cement and stone compared to the first nine months of 2011.

Intermodal Higher fuel surcharges (including improved fuel recovery provisions), core pricing gains and volume growth increased freight revenue from intermodal shipments in the third quarter and year-to-date periods of 2012 compared to 2011. Third quarter volume levels from international traffic increased 1% versus 2011, despite continued market uncertainty. Year-to-date, international volumes increased 1% compared to 2011 with modest West Coast import growth, partially offset by the loss of a customer contract in the first half of the year. Domestic traffic for the quarter and year-to-date periods increased 1% and 3%, respectively, versus 2011, due to better market conditions and continued conversion from truck to rail.

Mexico Business Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business increased 5% to \$479 million in the third quarter of 2012 versus the same period in 2011. Volume levels for four of the six commodity groups increased (industrial products and agricultural products declined), up 6% in aggregate versus 2011, with particularly strong growth in automotive and intermodal shipments. Year-to-date, revenue grew 10% versus 2011 to \$1.5 billion, driven by volume growth of 6% versus 2011.

Table of Contents**Operating Expenses**

| <i>Millions</i> | <i>Three Months Ended</i> | | | <i>Nine Months Ended</i> | | |
|----------------------------------|---------------------------|-----------------|---------------|--------------------------|------------------|---------------|
| | <i>September 30,</i> | <i>2011</i> | <i>%</i> | <i>September 30,</i> | <i>2011</i> | <i>%</i> |
| | 2012 | | Change | 2012 | | Change |
| Compensation and benefits | \$ 1,188 | \$ 1,193 | -% | \$ 3,550 | \$ 3,526 | 1% |
| Fuel | 880 | 916 | (4) | 2,688 | 2,646 | 2 |
| Purchased services and materials | 542 | 506 | 7 | 1,610 | 1,497 | 8 |
| Depreciation | 447 | 408 | 10 | 1,307 | 1,204 | 9 |
| Equipment and other rents | 300 | 293 | 2 | 895 | 878 | 2 |
| Other | 200 | 207 | (3) | 606 | 591 | 3 |
| Total | \$ 3,557 | \$ 3,523 | 1% | \$ 10,656 | \$ 10,342 | 3% |

Operating expenses increased \$34 million and \$314 million in the third quarter and nine-month periods of 2012 versus the comparable periods in 2011. Depreciation, volume-related trucking services purchased by our logistics subsidiaries, wage and benefit inflation and property taxes contributed to higher expenses during both periods. In the third quarter of 2012, lower fuel expense, destroyed equipment and locomotive lease costs partially offset these increases. Year-to-date, fuel costs contributed to the higher expenses. In the second and third quarters of 2011, weather related costs totaled \$38 million.

Compensation and Benefits Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. Operational improvements, cost reductions and lower training costs for new employees more than offset general wage and benefit inflation and higher pension and other postretirement benefits in the third quarter of 2012 versus 2011. In the third quarter of 2011, additional crew costs due to speed restrictions caused by the heat and drought in the South increased costs. Year-to-date, general wage and benefit inflation, volume-related costs and higher expenses for pension and other postretirement benefits drove a 1% increase versus 2011. Operational improvements and cost reductions partially offset these higher expenses for the year-to-date period of 2012.

Fuel Fuel includes locomotive fuel and gasoline for highway and non-highway vehicles and heavy equipment. Fuel costs were lower as gross-ton miles declined 2% in the third quarter, coupled with our best fuel consumption rate of the year, which was lower than 2011 results. Locomotive diesel fuel prices were essentially flat averaging \$3.19 (including taxes and transportation costs) in the third quarter of 2012, compared to \$3.18 per gallon in the same period in 2011. For the nine month period, higher locomotive diesel fuel prices, which averaged \$3.21 per gallon versus \$3.11 per gallon in 2011, increased fuel expense \$79 million, more than offsetting the 1% decline in gross-ton miles.

Purchased Services and Materials Expense for purchased services and materials includes the costs of services purchased from outside contractors (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. Contract services increased 15% and 11% compared to the third quarter and the nine-month periods of 2011, respectively, primarily due to increased demand for trucking services purchased by our logistics subsidiaries and additional costs for repair and maintenance of locomotives and freight cars. Volume-related crew transportation and lodging and material costs also increased purchased services and materials expense in the nine-month period of 2012.

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 in 2012 compared to 2011.

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; other rent expenses; and office and other rentals. Increased automotive and intermodal shipments, partially offset by improved car-cycle times, drove a \$9 million and \$23 million increase in our short-term freight car rental expense in the third quarter and year-to-date periods of 2012,

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respectively, compared to 2011. Conversely, lower locomotive lease expenses compared to both periods in 2011 partially offset the higher freight car rental expense.

Other Other expenses include personal injury, freight and property damage, destruction of equipment owned by others, insurance, environmental, bad debt, state and local taxes, utilities, telephone and cellular, employee travel, computer software, and other general expenses. Other costs in the third quarter of 2012 were lower than the same period in 2011 as lower destroyed equipment and damaged freight costs more than offset higher property tax and personal injury expenses. Despite continual improvement in our safety experience and lower estimated annual costs, personal injury expense increased in the third quarter of 2012 compared to 2011, as the liability reduction related to claim experience for past years was less than the reduction in 2011. The year-to-date increase versus 2011 is primarily attributable to higher property taxes.

Non-Operating Items

| <i>Millions</i> | <i>Three Months Ended</i> | | | <i>Nine Months Ended</i> | | |
|------------------|---------------------------|-------------|---------------|--------------------------|-------------|---------------|
| | <i>September 30,</i> | | <i>%</i> | <i>September 30,</i> | | <i>%</i> |
| | <i>2012</i> | <i>2011</i> | <i>Change</i> | <i>2012</i> | <i>2011</i> | <i>Change</i> |
| Other income | \$ 28 | \$ 17 | 65% | \$ 65 | \$ 58 | 12% |
| Interest expense | (137) | (142) | (4) | (407) | (431) | (6) |
| Income taxes | (635) | (549) | 16 | (1,771) | (1,406) | 26 |

Other Income Other income increased in the third quarter of 2012 versus the same period of 2011 due to a loss on non-operating property in 2011. Year-to-date, other income increased due to larger gains on non-operating property, partially offset by environmental costs on non-operating properties and costs related to early redemption of existing long-term debt in the second quarter of 2012.

Interest Expense Interest expense decreased in the third quarter of 2012 versus 2011 due to a lower effective interest rate of 5.8% versus 6.2%, partially offset by an increased weighted-average debt level in 2012 of \$9.4 billion versus \$9.2 billion in 2011. Year-to-date, a lower weighted-average debt level of \$9.0 billion in 2012 versus \$9.2 billion in 2011, along with a lower effective interest rate in 2012 of 6.0% versus 6.2% in 2011 drove a decrease in interest expense.

Income Taxes Higher pre-tax income primarily drove the increase in income taxes in the third quarter and year-to-date in 2012 compared to 2011. Our effective tax rate for the third quarter of 2012 was 37.9% compared to 37.8% in 2011. Our year-to-date effective tax rate for 2012 was 37.9% compared to 37.7% in 2011. The year-to-date 2012 effective tax rate was higher than the 2011 rate primarily because of the benefit from the reduction in the Arizona state tax rate in 2011.

OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report key Railroad performance measures weekly to the Association of American Railroads (AAR), including carloads, average daily inventory of rail cars on our system, average train speed, and average terminal dwell time. We provide this data on our website at www.up.com/investors/reports/index.shtml.

Table of Contents**Operating/Performance Statistics**

Railroad performance measures reported to the AAR, as well as other performance measures, are included in the table below:

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|--------|-----------|-------------------|--------|-----------|
| | September 30, | | % | September 30, | | % |
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Average train speed (miles per hour) | 26.1 | 24.6 | 6 % | 26.4 | 25.6 | 3 % |
| Average terminal dwell time (hours) | 26.0 | 26.2 | (1)% | 26.0 | 26.1 | - % |
| Average rail car inventory (thousands) | 268.0 | 274.4 | (2)% | 270.7 | 272.5 | (1)% |
| Gross ton-miles (billions) | 245.4 | 250.9 | (2)% | 720.4 | 725.5 | (1)% |
| Revenue ton-miles (billions) | 133.3 | 140.0 | (5)% | 392.6 | 405.0 | (3)% |
| Operating ratio | 66.6 | 69.1 | (2.5) pts | 68.0 | 71.6 | (3.6) pts |
| Employees (average) | 46,205 | 45,507 | 2 % | 45,882 | 44,841 | 2 % |
| Customer satisfaction index | 94 | 91 | 3 pts | 93 | 91 | 2 pts |

Average Train Speed Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Average train speed, as reported to the Association of American Railroads (AAR), increased 6% and 3% in the third quarter and year-to-date periods of 2012 versus 2011, respectively. Efficient operations and relatively mild weather conditions during the first nine months of the year compared favorably to the same period in 2011, during which severe winter weather, flooding, and extreme heat and drought affected various parts of our network. We continued operating a fluid and efficient network while handling essentially the same volume and adjusting operations to accommodate increased capital project work on our network compared to 2011.

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 improved 1% in the third quarter and remained flat during the nine-month period of 2012 compared to 2011, despite a shift in traffic mix to more manifest shipments, which require more switching at terminals.

Average Rail Car Inventory Average rail car inventory is the daily average number of rail cars on our lines, including rail cars in storage. Faster train speeds and lower terminal dwell improve productivity, which allows us to reduce the number of cars in our fleet. Despite a shift in traffic mix to shale-related and automotive shipments with longer cycle times, productivity improvements reduced average rail car inventory by 2% and 1% in the third quarter and year-to-date periods compared to 2011.

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 declined 1% during the nine-month period of 2012 compared to the same period in 2011, while revenue ton-miles decreased 3% and carloads remained relatively flat. Changes in commodity mix drove the variance in year-over-year growth between gross ton-miles, revenue ton-miles and carloads, which is consistent with third quarter results.

Operating Ratio Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our operating ratio improved 2.5 points to a record low 66.6% in the third quarter of 2012 versus the same period of 2011 and 3.6 points to 68.0% in the nine-month period of 2012 versus 2011. Core pricing gains, efficient operations and cost reductions more than offset the impact of inflation for the third quarter of 2012 versus the same period in 2011. Year-to-date, core pricing gains and improved fuel recovery provisions more than offset the impact of higher fuel prices and inflation.

Employees Employee levels were up 2% in the third quarter and nine-month periods of 2012 versus 2011. Increased work on capital projects during the mild winter which continued into the summer months, along with capital projects for positive train control, accounted for almost all of the increase in employee levels in both periods.

Customer Satisfaction Index Our customer satisfaction survey asks customers to rate how satisfied they are with our performance over the last 12 months on a variety of attributes. A higher score indicates

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higher customer satisfaction. The improvement in survey results generally reflects customer recognition of our service quality.

Debt to Capital / Adjusted Debt to Capital

| <i>Millions, Except Percentages</i> | <i>Sep. 30, 2012</i> | <i>Dec. 31, 2011</i> |
|-------------------------------------|--------------------------|--------------------------|
| Debt (a) | \$ 9,486 | \$ 8,906 |
| Equity | 19,549 | 18,578 |
| Capital (b) | \$ 29,035 | \$ 27,484 |
| | | |
| Debt to capital (a/b) | 32.7% | 32.4% |

| <i>Millions, Except Percentages</i> | <i>Sep. 30, 2012</i> | <i>Dec. 31, 2011</i> |
|---------------------------------------|--------------------------|--------------------------|
| Debt | \$ 9,486 | \$ 8,906 |
| Net present value of operating leases | 3,096 | 3,224 |
| Unfunded pension and OPEB | 548 | 623 |
| Adjusted debt (a) | 13,130 | 12,753 |
| Equity | 19,549 | 18,578 |
| Adjusted capital (b) | \$ 32,679 | \$ 31,331 |
| | | |
| Adjusted debt to capital (a/b) | 40.2% | 40.7% |

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K. 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 leases were discounted using 6.0% at September 30, 2012 and 6.2% at December 31, 2011. The lower discount rate reflects changes to interest rates and our current financing costs. 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,

| <i>for the Nine Months Ended September 30</i> | <i>2012</i> | <i>2011</i> |
|---|-------------|-------------|
| Cash provided by operating activities | \$ 4,366 | \$ 4,334 |
| Cash used in investing activities | (2,866) | (2,241) |
| Cash used in financing activities | (1,587) | (1,532) |
| | | |
| Net change in cash and cash equivalents | \$ (87) | \$ 561 |

Operating Activities

Higher pre-tax income in the first nine months of 2012 increased cash provided by operating activities compared to the same period of 2011, offset by lower tax benefits from bonus depreciation and payments for past wages based on national labor negotiations settled earlier this year.

Investing Activities

Higher capital investments in the first nine months of 2012 drove the increase in cash used in investing activities compared to the same period in 2011. Included in capital investments in the first nine months of 2012 was \$75 million for the early buyout of locomotives under long-term operating and capital leases, which we exercised due to favorable economic terms and market conditions.

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The table below details cash capital investments:

Millions,

| <i>for the Nine Months Ended September 30</i> | <i>2012</i> | <i>2011</i> |
|---|-------------|-------------|
| Rail and other track material | \$ 558 | \$ 513 |
| Ties | 332 | 302 |
| Ballast | 153 | 169 |
| Other [a] | 193 | 220 |
| Total road infrastructure replacements | 1,236 | 1,204 |
| Line expansion and other capacity projects | 345 | 213 |
| Commercial facilities | 113 | 33 |
| | | |
| Total capacity and commercial facilities | 458 | 246 |
| | | |
| Locomotives and freight cars | 798 | 550 |
| Positive train control | 260 | 144 |
| Technology and other | 124 | 74 |
| Total cash capital investments | \$ 2,876 | \$ 2,218 |

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

Capital Plan In 2012, we intend to make new capital investments of approximately \$3.6 billion under our capital plan, which may be revised if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments. In addition, we project expenditures of \$96 million (\$91 million recognized in the first nine months) for the early buyout of long-term locomotive leases.

Financing Activities

Cash used in financing activities increased in the first nine months of 2012 versus the same period of 2011 driven by higher dividend payments in 2012 of \$860 million compared to \$607 million in 2011, reflecting higher dividends per share and an increase of \$143 million for the repurchase of shares under our common stock repurchase program. Additional net debt of \$419 million partially offset the increase.

Free Cash Flow Free cash flow is defined as cash provided by operating activities less cash used in investing activities and dividends paid. Free cash flow was lower in 2012 despite record earnings as a result of lower tax benefits from bonus depreciation, additional capital spending and higher dividend payouts.

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. 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,

| <i>for the Nine Months Ended September 30</i> | <i>2012</i> | <i>2011</i> |
|---|-------------|-------------|
| Cash provided by operating activities | \$ 4,366 | \$ 4,334 |
| Cash used in investing activities | (2,866) | (2,241) |

| | | |
|----------------|-------|-------|
| Dividends paid | (860) | (607) |
|----------------|-------|-------|

| | | |
|----------------|--------|----------|
| Free cash flow | \$ 640 | \$ 1,486 |
|----------------|--------|----------|

Credit Facilities At September 30, 2012, we had \$1.8 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, 2012. 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

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on London Interbank Offered Rates, plus a spread, depending upon our senior unsecured debt ratings. The facility requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At September 30, 2012, and December 31, 2011 (and at all times during the year), 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, 2012, the debt-to-net-worth coverage ratio allowed us to carry up to \$39.1 billion of debt (as defined in the facility), and we had \$10.1 billion of debt (as defined in the facility) outstanding at that date. Under our 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 \$75 million cross-default provision and a change-of-control provision.

During the nine months ended September 30, 2012, we issued and repaid commercial paper of \$50 million. At September 30, 2012, 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 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.

On May 22, 2012, we borrowed \$100 million under a 4-year-term loan (the loan). The loan has a floating rate based on London Interbank Offered Rates, plus a spread, and is prepayable in whole or in part without a premium prior to maturity. The agreement documenting the loan has provisions similar to our revolving credit facility, including identical debt-to-net-worth covenant and change-of-control provisions and similar customary default provisions. The agreement does not include any other financial restrictions, credit rating triggers, or any other provision that would require us to post collateral.

On June 11, 2012, we issued \$300 million of 2.95% unsecured fixed-rate notes and \$300 million of 4.30% unsecured fixed-rate notes under our shelf registration statement. The 2.95% notes will mature on January 15, 2023, and the 4.30% notes will mature on June 15, 2042. Proceeds from this offering are for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program.

During the third quarter of 2012, we acquired 269 locomotives by exercising early buy-out rights in certain operating and capital lease agreements. Following the acquisition of the locomotives, we sold them to financing parties and entered into capital lease financing agreements with these parties. We did not recognize any gains or losses as a result of these transactions. Capital lease obligations totaling \$229 million are reported in our Consolidated Statements of Financial Position as debt at September 30, 2012.

At both September 30, 2012 and December 31, 2011, we reclassified as long-term debt approximately \$100 million of debt due within one year that we intend to refinance. This reclassification reflects our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Debt Redemption On April 28, 2012, we redeemed all \$100 million of our outstanding 5.70% Tooele County, Utah Hazardous Waste Treatment Revenue Bonds due November 1, 2026. The redemption resulted in an early extinguishment charge of \$2 million in the second quarter of 2012.

Receivables Securitization Facility Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to

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investors under the facility was \$600 million at September 30, 2012 and December 31, 2011, respectively. The value of the outstanding undivided interest held by investors under the facility was \$100 million at September 30, 2012 and December 31, 2011, respectively, and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year. The value of the undivided interest held by investors was supported by \$1.3 billion and \$1.1 billion of accounts receivable at September 30, 2012 and December 31, 2011, respectively. At September 30, 2012 and December 31, 2011, the value of the interest retained by UPRI was \$1.3 billion and \$1.1 billion, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of September 30, 2012. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad collected approximately \$5.1 billion and \$4.9 billion during the three months ended September 30, 2012 and 2011, respectively, and \$14.9 billion and \$13.8 billion during the nine months ended September 30, 2012 and 2011, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$1 million for the three months ended September 30, 2012 and 2011, and \$3 million for the nine months ended September 30, 2012 and 2011.

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.

In July 2012, the receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

Debt Exchange On June 23, 2011, we exchanged \$857 million of various outstanding notes and debentures due between 2013 and 2019 (Existing Notes) for \$750 million of 4.163% notes (New Notes) due July 15, 2022, plus cash consideration of approximately \$267 million and \$17 million for accrued and unpaid interest on the Existing Notes. In accordance with ASC 470-50-40, Debt-Modifications and Extinguishments-Derecognition, this transaction was accounted for as a debt exchange, as the exchanged debt instruments are not considered to be substantially different. The cash consideration was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. No gain or loss was recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debt holders totaled approximately \$6 million and were included in interest expense during the three months ended June 30, 2011.

The following table lists the outstanding notes and debentures that were exchanged:

| <i>Millions</i> | <i>Principal amount exchanged</i> |
|----------------------------|---------------------------------------|
| 7.875% Notes due 2019 | \$ 196 |
| 5.450% Notes due 2013 | 50 |
| 5.125% Notes due 2014 | 45 |
| 5.375% Notes due 2014 | 55 |
| 5.700% Notes due 2018 | 277 |
| 5.750% Notes due 2017 | 178 |
| 7.000% Debentures due 2016 | 38 |
| 5.650% Notes due 2017 | 18 |
| Total | \$ 857 |

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Share Repurchase Program The shares repurchased in the first quarter of 2011, shown in the table below, were repurchased under our authorized repurchase program that expired on March 31, 2011. Effective April 1, 2011, our Board of Directors authorized the repurchase of 40 million common shares by March 31, 2014, replacing our previous repurchase program. The shares repurchased in the second and third quarters of 2011, and the first, second and third quarters of 2012 shown in the table below, were purchased under the new program. As of September 30, 2012, we had repurchased a total of \$6.9 billion of UPC common stock since the commencement of purchases under our repurchase programs.

| | <i>Number of Shares Purchased</i> | | <i>Average Price Paid</i> | |
|--|-----------------------------------|-------------|---------------------------|-------------|
| | <i>2012</i> | <i>2011</i> | <i>2012</i> | <i>2011</i> |
| First quarter | 3,917,369 | 2,636,178 | \$ 110.64 | \$ 94.10 |
| Second quarter | 3,770,528 | 3,576,399 | 110.02 | 100.75 |
| Third quarter | 3,098,812 | 4,681,535 | 122.13 | 91.45 |
| Total | 10,786,709 | 10,894,112 | \$ 113.72 | \$ 95.14 |
| Remaining number of shares that may yet be repurchased | | | | 17,069,699 |

Management's assessments of market conditions and other pertinent facts 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.

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, 2012:

Contractual Obligations

| Millions | Total | Payments Due by Dec. 31, | | | | | | |
|-----------------------------------|-----------|---------------------------------------|----------|----------|----------|----------|---------------|--------|
| | | Oct. 1 through Dec. 31, 2012 | 2013 | 2014 | 2015 | 2016 | After 2016 | Other |
| Debt [a] | \$ 13,163 | \$ 63 | \$ 970 | \$ 904 | \$ 632 | \$ 769 | \$ 9,825 | \$ - |
| Operating leases [b] | 4,241 | 82 | 521 | 443 | 402 | 365 | 2,428 | - |
| Capital lease obligations [c] | 2,479 | 106 | 270 | 261 | 250 | 230 | 1,362 | - |
| Purchase obligations [d] | 5,425 | 830 | 2,028 | 996 | 353 | 319 | 867 | 32 |
| Other postretirement benefits [e] | 1,671 | 40 | 161 | 166 | 171 | 176 | 957 | - |
| Income tax contingencies [f] | 115 | 32 | - | - | - | - | - | 83 |
| Total contractual obligations | \$ 27,094 | \$ 1,153 | \$ 3,950 | \$ 2,770 | \$ 1,808 | \$ 1,859 | \$ 15,439 | \$ 115 |

[a] Excludes capital lease obligations of \$1,876 million and unamortized discount of (\$366) million. Includes an interest component of \$5,187 million.

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

[c] Represents total obligations, including interest component of \$603 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. No amounts are included for funded pension obligations as no contributions are currently required.

[f] Income tax contingencies reflect the recorded liability for unrecognized tax benefits, including interest and penalties, at September 30, 2012. Where we can reasonably estimate the years in which these liabilities may be settled, this is shown in the table. For amounts where we cannot reasonably estimate the year of settlement, they are reflected in the Other column.

Other Commercial Commitments

| Millions | Total | Amount of Commitment Expiration by Dec. 31, | | | | | |
|---|----------|---|--------|--------|----------|-------|---------------|
| | | Oct. 1 through Dec. 31, 2012 | 2013 | 2014 | 2015 | 2016 | After 2016 |
| Credit facilities [a] | \$ 1,800 | \$ - | \$ - | \$ - | \$ 1,800 | \$ - | \$ - |
| Receivables securitization facility [b] | 600 | - | 600 | - | - | - | - |
| Guarantees [c] | 309 | 2 | 8 | 214 | 12 | 30 | 43 |
| Standby letters of credit [d] | 24 | 7 | 17 | - | - | - | - |
| Total commercial commitments | \$ 2,733 | \$ 9 | \$ 625 | \$ 214 | \$ 1,812 | \$ 30 | \$ 43 |

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[a] None of the credit facility was used as of September 30, 2012.

[b] \$100 million of the receivables securitization facility was utilized at September 30, 2012, which is accounted for as debt. The full program matures in July 2013.

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

[d] None of the letters of credit were drawn upon as of September 30, 2012.

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; however, to the extent possible, where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated, we have recorded a liability. 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.

Indemnities Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, 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

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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 On January 1, 2012, we adopted 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05) which requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. Also, in December of 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12).

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". 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 2011 Annual Report on Form 10-K, filed February 3, 2012, 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.

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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 2011 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 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 have been 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 have 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

As reported in the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, on May 4, 2012, the Sacramento County Environmental Management Department issued an administrative Enforcement Order to UPRR, alleging various permitting and hazardous waste management, disposal and record keeping violations at one facility within the company's Roseville railyard. On August 7, 2012, UPRR entered into a Stipulation and Order with the Sacramento County Environmental Management Department, which did not include admission of liability by UPRR for the alleged violations, and required payment of a civil penalty to the County in the amount of \$60,615 in full settlement of the violations alleged in the agency's May 4, 2012 Enforcement Order.

We received 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.

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Other Matters

As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 20 small 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 (one railroad was eventually dropped from the lawsuit). The original plaintiff filed the first of these claims in the U.S. District Court in New Jersey on May 14, 2007, and the additional plaintiffs filed claims in district courts in various states, including Florida, Illinois, Alabama, Pennsylvania, and the District of Columbia. These suits allege that the named railroads engaged in price-fixing by establishing common fuel surcharges for certain rail traffic.

We received additional complaints following the initial claim, increasing the total number of complaints to 30. In addition to suits filed by direct purchasers of rail transportation, a few of the suits involved plaintiffs alleging that they are or were indirect purchasers of rail transportation and seeking to represent a purported class of indirect purchasers of rail transportation 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. Subsequently, the direct purchaser plaintiffs and the indirect purchaser plaintiffs filed Consolidated Amended Class Action Complaints against UPRR and three other Class I railroads.

One additional shipper filed a separate anti-trust suit during 2008. Subsequently, the shipper voluntarily dismissed the action without prejudice.

On October 10, 2008, Judge Friedman heard oral arguments with respect to the defendant railroads' motions to dismiss. In a ruling on November 7, 2008, Judge Friedman denied the motion with respect to the direct purchasers' complaint, and pretrial proceedings are underway in that case. On December 31, 2008, Judge Friedman dismissed the complaints of the indirect purchasers based upon state antitrust, consumer protection, and unjust enrichment laws. He also ruled, however, that these plaintiffs could proceed with their claim for injunctive relief under the federal antitrust laws, which is identical to a claim by the direct purchaser plaintiffs. The indirect purchasers appealed Judge Friedman's ruling to the U.S. Court of Appeals for the District of Columbia. 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.

With respect to the direct purchasers' complaint, Judge Friedman conducted a two-day hearing on October 6 and 7, 2010, on the class certification issue and the railroad defendants' motion to exclude evidence of interline communications. On April 7, 2011, Judge Friedman issued an order deferring any decision on class certification until the Supreme Court issued its decision in the Wal-Mart employment discrimination case.

On June 21, 2012, Judge Friedman issued his decision certifying a class of plaintiffs to be represented by the eight named plaintiffs. The class includes all shippers that paid a rate-based fuel surcharge to any one of the defendant railroads for rate-unregulated rail transportation from July 1, 2003 through December 1, 2008. This is a procedural ruling, which does not affirm any of the claims asserted by the plaintiffs and does not affect 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.

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 2011 Annual Report on Form 10-K.

Table of Contents**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 2012:

| <i>Period</i> | <i>Total Number of Shares Purchased [a]</i> | <i>Average Price Paid Per Share</i> | <i>Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program [b]</i> | <i>Maximum Number of</i> |
|------------------------|---|-------------------------------------|---|---|
| | | | | <i>Shares That May Yet Be Purchased Under the Plan or Program [b]</i> |
| Jul. 1 through Jul. 31 | 402,058 | \$ 121.70 | 93,137 | 20,075,374 |
| Aug. 1 through Aug. 31 | 927,234 | 123.29 | 853,893 | 19,221,481 |
| Sep. 1 through Sep. 30 | 2,204,263 | 122.08 | 2,151,782 | 17,069,699 |
| Total | 3,533,555 | \$ 122.35 | 3,098,812 | N/A |

[a] Total number of shares purchased during the quarter includes 434,743 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] On April 1, 2011, our Board of Directors authorized the repurchase of up to 40 million shares of our common stock by March 31, 2014. 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 \$14.5 billion and \$13.8 billion at September 30, 2012 and December 31, 2011, respectively.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits**

| <u>Exhibit No.</u> | <u>Description</u> |
|----------------------------------|--|
| <u>Filed with this Statement</u> | |
| 12(a) | Ratio of Earnings to Fixed Charges for the Three Months Ended September 30, 2012 and 2011. |
| 12(b) | Ratio of Earnings to Fixed Charges for the Nine Months Ended September 30, 2012 and 2011. |
| 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 - John J. Koraleski. |
| 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 - John J. Koraleski 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, 2012 (filed with the SEC on October 18, 2012), is formatted in XBRL and submitted electronically herewith: (i) Condensed Consolidated Statements of Income for the periods ended September 30, 2012 and 2011, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended September 30, 2012 and 2011, (iii) Condensed Consolidated Statements of Financial Position at September 30, and December 31, 2011, (iv) Condensed Consolidated Statements of Cash Flows for the periods ended September 30, 2012 and 2011, (v) Condensed Consolidated Statements of Changes in Common Shareholders' Equity for the periods ended September 30, 2012 and 2011, and (vi) the Notes to the Condensed Consolidated Financial Statements. |
| <u>Incorporated by Reference</u> | |
| 3(a) | Revised Articles of Incorporation of UPC, as amended through June 27, 2011, 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, 2011. |
| 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 18, 2012

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/ Jeffrey P. Totusek
Jeffrey P. Totusek
Vice President and Controller
(Principal Accounting Officer)