

UNION PACIFIC CORP  
Form 10-Q  
April 17, 2014  
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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 March 31, 2014**

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 April 11, 2014, there were 452,911,741 shares of the Registrant's Common Stock outstanding.

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**UNION PACIFIC CORPORATION**

**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 March 31,</i> | <b>2014</b>     | <b>2013</b> |
|---|-----------------|-------------|
| Operating revenues:                         |                 |             |
| Freight revenues                            | \$ 5,286        | \$ 4,984    |
| Other revenues                              | 352             | 306         |
| <br>  |                 |             |
| Total operating revenues                    | <b>5,638</b>    | 5,290       |
| Operating expenses:                         |                 |             |
| Compensation and benefits                   | 1,254           | 1,216       |
| Fuel  | 921             | 900         |
| Purchased services and materials            | 607             | 557         |
| Depreciation                                | 464             | 434         |
| Equipment and other rents                   | 312             | 313         |
| Other                                       | 226             | 237         |
| <br>  |                 |             |
| Total operating expenses                    | <b>3,784</b>    | 3,657       |
| <br>  |                 |             |
| Operating income                            | <b>1,854</b>    | 1,633       |
| Other income (Note 5)                       | 38              | 40          |
| Interest expense                            | (133)           | (128)       |
| Income before income taxes                  | <b>1,759</b>    | 1,545       |
| Income taxes                                | (671)           | (588)       |
| <br>  |                 |             |
| Net income                                  | <b>\$ 1,088</b> | \$ 957      |
| <br>  |                 |             |
| Share and Per Share (Note 7):               |                 |             |
| Earnings per share - basic                  | \$ 2.40         | \$ 2.05     |
| Earnings per share - diluted                | \$ 2.38         | \$ 2.03     |
| Weighted average number of shares - basic   | 454.1           | 467.8       |
| Weighted average number of shares - diluted | 456.2           | 470.5       |
| <br>  |                 |             |
| Dividends declared per share                | <b>\$ 0.91</b>  | \$ 0.69     |

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

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Millions,

| <i>for the Three Months Ended March 31,</i> | <b>2014</b>     | <b>2013</b>   |
|---|-----------------|---------------|
| Net income                                  | <b>\$ 1,088</b> | <b>\$ 957</b> |
| Other comprehensive income/(loss):          |                 |               |
| Defined benefit plans                       | <b>20</b>       | <b>14</b>     |
| Foreign currency translation                | <b>(4)</b>      | <b>3</b>      |
| Total other comprehensive income/(loss) [a] | <b>16</b>       | <b>17</b>     |
| Comprehensive income                        | <b>\$ 1,104</b> | <b>\$ 974</b> |

[a] Net of deferred taxes of \$5 million and \$12 million during the three months ended March 31, 2014, and 2013, 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>March 31,<br/>2014</i> | <i>December 31,<br/>2013</i> |
|--|---------------------------|------------------------------|
| <b>Assets</b>  |                           |                              |
| Current assets:  |                           |                              |
| Cash and cash equivalents  | \$ 1,857                  | \$ 1,432                     |
| Accounts receivable, net (Note 9)  | 1,542                     | 1,414                        |
| Materials and supplies   | 705                       | 653                          |
| Current deferred income taxes  | 259                       | 268                          |
| Other current assets   | 316                       | 223                          |
| <br>   |                           |                              |
| Total current assets   | 4,679                     | 3,990                        |
| <br>   |                           |                              |
| Investments  | 1,344                     | 1,321                        |
| Net properties (Note 10)   | 44,189                    | 43,749                       |
| Other assets   | 686                       | 671                          |
| <br>   |                           |                              |
| Total assets   | \$ 50,898                 | \$ 49,731                    |
| <b>Liabilities and Common Shareholders' Equity</b>   |                           |                              |
| Current liabilities:   |                           |                              |
| Accounts payable and other current liabilities (Note 11)   | \$ 3,556                  | \$ 3,086                     |
| Debt due within one year (Note 13)   | 632                       | 705                          |
| <br>   |                           |                              |
| Total current liabilities  | 4,188                     | 3,791                        |
| <br>   |                           |                              |
| Debt due after one year (Note 13)  | 9,544                     | 8,872                        |
| Deferred income taxes  | 14,229                    | 14,163                       |
| Other long-term liabilities  | 1,665                     | 1,680                        |
| Commitments and contingencies (Note 15)  |                           |                              |
| <br>   |                           |                              |
| Total liabilities  | 29,626                    | 28,506                       |
| <br>   |                           |                              |
| Common shareholders' equity:   |                           |                              |
| Common shares, \$2.50 par value, 800,000,000 authorized;<br>555,066,436 and 554,828,826 issued; 453,006,906 and 456,000,998<br>outstanding, respectively | 1,388                     | 1,387                        |
| Paid-in-surplus  | 4,233                     | 4,210                        |
| Retained earnings  | 25,962                    | 25,288                       |
| Treasury stock   | (9,577)                   | (8,910)                      |
| Accumulated other comprehensive loss (Note 8)  | (734)                     | (750)                        |
| <br>   |                           |                              |
| Total common shareholders' equity  | 21,272                    | 21,225                       |

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|   |    |               |    |        |
|---|----|---------------|----|--------|
| Total liabilities and common shareholders' equity | \$ | <b>50,898</b> | \$ | 49,731 |
|---|----|---------------|----|--------|

*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,*

| <i>for the Three Months Ended March 31,</i>                                   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| <b>Operating Activities</b>   |             |             |
| Net income  | \$ 1,088    | \$ 957      |
| Adjustments to reconcile net income to cash provided by operating activities: |             |             |
| Depreciation  | 464         | 434         |
| Deferred income taxes and unrecognized tax benefits                           | 75          | 184         |
| Other operating activities, net   | (57)        | 4           |
| Changes in current assets and liabilities:                                    |             |             |
| Accounts receivable, net  | (128)       | (181)       |
| Materials and supplies  | (52)        | 5           |
| Other current assets  | (93)        | (14)        |
| Accounts payable and other current liabilities                                | 84          | (82)        |
| Income and other taxes payable  | 386         | 217         |
| Cash provided by operating activities   | 1,767       | 1,524       |
| <b>Investing Activities</b>   |             |             |
| Capital investments   | (893)       | (782)       |
| Proceeds from asset sales   | 27          | 17          |
| Other investing activities, net   | (39)        | (35)        |
| Cash used in investing activities   | (905)       | (800)       |
| <b>Financing Activities</b>   |             |             |
| Debt issued (Note 13)   | 995         | 944         |
| Common share repurchases (Note 16)  | (644)       | (374)       |
| Debt repaid   | (402)       | (83)        |
| Dividends paid  | (363)       | (323)       |
| Other financing activities, net   | (23)        | (34)        |
| Cash (used in)/provided by financing activities                               | (437)       | 130         |
| Net change in cash and cash equivalents                                       | 425         | 854         |
| Cash and cash equivalents at beginning of year                                | 1,432       | 1,063       |
| Cash and cash equivalents at end of period                                    | \$ 1,857    | \$ 1,917    |
| <b>Supplemental Cash Flow Information</b>                                     |             |             |
| Non-cash investing and financing activities:                                  |             |             |
| Cash dividends declared but not yet paid                                      | \$ 407      | \$ 318      |
| Capital investments accrued but not yet paid                                  | 109         | 107         |
| Common shares repurchased but not yet paid                                    | 39          | 20          |
| Cash paid for:  |             |             |
| Income taxes, net of refunds  | \$ (146)    | \$ (39)     |
| Interest, net of amounts capitalized  | (178)       | (179)       |

*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>AOCI</i>      | <i>Total</i> |
|---|---------------|-----------------|--------------------------|-----------------------------|------------------------------|---------------------------|-------------------|------------------|--------------|
|   | <i>Shares</i> | <i>Shares</i>   | <i>Common<br/>Shares</i> | <i>Paid-in-<br/>Surplus</i> | <i>Retained<br/>Earnings</i> | <i>Treasury<br/>Stock</i> | <i>[a]</i>        |                  |              |
| Balance at January 1, 2013                                    | 554.6         | (85.1)          | \$ 1,386                 | \$ 4,113                    | \$ 22,271                    | \$ (6,707)                | \$ (1,186)        | \$ 19,877        |              |
| Net income  |               |                 | -                        | -                           | 957                          | -                         | -                 | 957              |              |
| Other comp. income  |               |                 | -                        | -                           | -                            | -                         | 17                | 17               |              |
| Conversion, stock option exercises,<br>forfeitures, and other | 0.2           | 0.3             | 1                        | 21                          | -                            | (12)                      | -                 | 10               |              |
| Share repurchases (Note 16)                                   | -             | (2.9)           | -                        | -                           | -                            | (394)                     | -                 | (394)            |              |
| Cash dividends declared<br>(\$0.69 per share)                 | -             | -               | -                        | -                           | (323)                        | -                         | -                 | (323)            |              |
| <b>Balance at March 31, 2013</b>                              | <b>554.8</b>  | <b>(87.7)</b>   | <b>\$ 1,387</b>          | <b>\$ 4,134</b>             | <b>\$ 22,905</b>             | <b>\$ (7,113)</b>         | <b>\$ (1,169)</b> | <b>\$ 20,144</b> |              |
| Balance at January 1, 2014                                    | 554.8         | (98.8)          | \$ 1,387                 | \$ 4,210                    | \$ 25,288                    | \$ (8,910)                | \$ (750)          | \$ 21,225        |              |
| Net income  |               |                 | -                        | -                           | 1,088                        | -                         | -                 | 1,088            |              |
| Other comp. income  |               |                 | -                        | -                           | -                            | -                         | 16                | 16               |              |
| Conversion, stock option exercises,<br>forfeitures, and other | 0.3           | 0.5             | 1                        | 23                          | -                            | 16                        | -                 | 40               |              |
| Share repurchases (Note 16)                                   | -             | (3.8)           | -                        | -                           | -                            | (683)                     | -                 | (683)            |              |
| Cash dividends declared<br>(\$0.91 per share)                 | -             | -               | -                        | -                           | (414)                        | -                         | -                 | (414)            |              |
| <b>Balance at March 31, 2014</b>                              | <b>555.1</b>  | <b>(102.1)</b>  | <b>\$ 1,388</b>          | <b>\$ 4,233</b>             | <b>\$ 25,962</b>             | <b>\$ (9,577)</b>         | <b>\$ (734)</b>   | <b>\$ 21,272</b> |              |

*[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (Note 8)**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, Company, UPC, we, us, and our 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, 2013, 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 2013 Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2014, are not necessarily indicative of the results for the entire year ending December 31, 2014.

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

**2. Operations and Segmentation**

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

*Millions,*

| <i>for the Three Months Ended March 31,</i> | <b>2014</b>     | <b>2013</b>     |
|---|-----------------|-----------------|
| Agricultural                                | \$ 910          | \$ 784          |
| Automotive                                  | 488             | 487             |
| Chemicals                                   | 893             | 873             |
| Coal  | 961             | 936             |
| Industrial Products                         | 1,011           | 916             |
| Intermodal                                  | 1,023           | 988             |
| Total freight revenues                      | \$ 5,286        | \$ 4,984        |
| Other revenues                              | 352             | 306             |
| <b>Total operating revenues</b>             | <b>\$ 5,638</b> | <b>\$ 5,290</b> |

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported by us are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are revenues from our Mexico business which amounted to \$540 million and \$505 million, respectively for the three months ended March 31, 2014, and March 31, 2013.

**Table of Contents****3. Stock-Based Compensation**

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

Millions,

| for the Three Months Ended March 31,               | 2014  | 2013  |
|--|-------|-------|
| Stock-based compensation, before tax:              |       |       |
| Stock options                                      | \$ 6  | \$ 4  |
| Retention awards                                   | 29    | 21    |
| Total stock-based compensation, before tax         | \$ 35 | \$ 25 |
| Excess tax benefits from equity compensation plans | \$ 60 | \$ 46 |

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

| Weighted-Average Assumptions                              | 2014     | 2013     |
|---|----------|----------|
| Risk-free interest rate                                   | 1.6%     | 0.8%     |
| Dividend yield  | 2.1%     | 2.1%     |
| Expected life (years)                                     | 5.2      | 5.0      |
| Volatility  | 30.0%    | 36.2%    |
| Weighted-average grant-date fair value of options granted | \$ 40.35 | \$ 34.98 |

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 three months ended March 31, 2014, is presented below:

|                                | Options<br>(thous.) | Weighted-<br>Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic Value<br>(millions) |
|--------------------------------|---------------------|--|--|--|
| Outstanding at January 1, 2014 | 3,722               | \$ 80.14                               | 5.8 yrs.   | \$ 327                                     |
| Granted                        | 494                 | 175.12                                 | N/A  | N/A  |
| Exercised                      | (308)               | 70.47                                  | N/A  | N/A  |
| Forfeited or expired           | (2)                 | 126.11                                 | N/A  | N/A  |

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|                               |       |    |       |     |    |     |
|-------------------------------|-------|----|-------|-----|----|-----|
| Outstanding at March 31, 2014 | 3,906 | \$ | 92.89 | 6.0 | \$ | 370 |
|-------------------------------|-------|----|-------|-----|----|-----|

|  |       |    |       |     |    |     |
|--|-------|----|-------|-----|----|-----|
| Vested or expected to vest at March 31, 2014 | 3,874 | \$ | 92.41 | 6.0 | \$ | 369 |
|--|-------|----|-------|-----|----|-----|

|                                       |       |    |       |     |    |     |
|---------------------------------------|-------|----|-------|-----|----|-----|
| Options exercisable at March 31, 2014 | 2,842 | \$ | 71.88 | 4.9 | \$ | 329 |
|---------------------------------------|-------|----|-------|-----|----|-----|

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 March 31, 2014, are subject to performance or market-based vesting conditions.

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At March 31, 2014, there was \$29 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.8 years. Additional information regarding stock option exercises appears in the table below:

Millions,

| <i>for the Three Months Ended March 31,</i>             | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| Intrinsic value of stock options exercised              | \$ 34       | \$ 28       |
| Cash received from option exercises                     | 18          | 14          |
| Treasury shares repurchased for employee payroll taxes  | (7)         | (5)         |
| Tax benefit realized from option exercises              | 13          | 11          |
| Aggregate grant-date fair value of stock options vested | 17          | 16          |

**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 three months ended March 31, 2014, were as follows:

|                              | <i>Shares</i><br><i>(thous.)</i> | <i>Weighted-Average</i><br><i>Grant-Date Fair Value</i> |
|------------------------------|----------------------------------|---|
| Nonvested at January 1, 2014 | 1,856                            | \$ 98.04  |
| Granted                      | 411                              | 175.12  |
| Vested                       | (532)                            | 62.13   |
| Forfeited                    | (10)                             | 108.69  |
| Nonvested at March 31, 2014  | 1,725                            | \$ 127.42   |

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At March 31, 2014, there was \$124 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.3 years.

**Performance Retention Awards** In February 2014, 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 2012, and February 2013, 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 2014, grant were as follows:

|  |                 |
|--|-----------------|
| Dividend per share per quarter           | 2014<br>\$ 0.91 |
| Risk-free interest rate at date of grant | 0.7%            |



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Changes in our performance retention awards during the three months ended March 31, 2014, were as follows:

|                              | <i>Shares</i><br><i>(thous.)</i> | <i>Weighted-Average</i><br><i>Grant-Date Fair Value</i> |
|------------------------------|----------------------------------|---|
| Nonvested at January 1, 2014 | 944                              | \$ 107.40   |
| Granted                      | 228                              | 166.11  |
| Vested                       | (331)                            | 89.87   |
| Forfeited                    | (4)                              | 117.61  |
| Nonvested at March 31, 2014  | 837                              | \$ 130.28   |

At March 31, 2014, there was \$62 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.7 years. This expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

**4. Retirement Plans****Pension and Other Postretirement Benefits**

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

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

**Expense**

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

The components of our net periodic pension and OPEB cost/(benefit) were as follows for the three months ended March 31:

| <i>Millions</i>                | <i>Pension</i> |             | <i>OPEB</i> |             |
|--------------------------------|----------------|-------------|-------------|-------------|
|                                | <i>2014</i>    | <i>2013</i> | <i>2014</i> | <i>2013</i> |
| Service cost                   | \$ 18          | \$ 19       | \$ 1        | \$ 1        |
| Interest cost                  | 39             | 33          | 4           | 3           |
| Expected return on plan assets | (58)           | (51)        | -           | -           |
| Amortization of:               |                |             |             |             |
| Prior service credit           | -              | -           | (3)         | (4)         |
| Actuarial loss                 | 17             | 26          | 2           | 4           |
|                                | \$ 16          | \$ 27       | \$ 4        | \$ 4        |

Net periodic pension cost



**Table of Contents****Cash Contributions**

For the three months ended March 31, 2014, we have not made any cash contributions to the qualified pension plan. Any contributions made during 2014 will be based on cash generated from operations and financial market considerations. Our policy with respect to funding the qualified plans is to fund at least the minimum required by law and not more than the maximum amount deductible for tax purposes. At March 31, 2014, we do not have minimum cash funding requirements for 2014.

**5. Other Income**

Other income included the following:

*Millions,*

| <i>for the Three Months Ended March 31,</i>     | <b>2014</b>  | <b>2013</b>  |
|---|--------------|--------------|
| Rental income [a]                               | \$ 24        | \$ 37        |
| Net gain on non-operating asset dispositions    | 4            | 4            |
| Interest income                                 | 1            | 1            |
| Non-operating environmental costs and other [b] | 9            | (2)          |
| <b>Total</b>                                    | <b>\$ 38</b> | <b>\$ 40</b> |

[a] 2013 includes \$17 million related to a land lease contract settlement.

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

**6. Income Taxes**

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 2005, and the statute of limitations bars any additional tax assessments. The IRS has completed their examinations and issued notices of deficiency for tax years 2005 through 2010. We disagree with many of their proposed adjustments, and we are at IRS Appeals for those years. Additionally, several state tax authorities are examining our state income tax returns for years 2006 through 2010.

In the fourth quarter of 2013, we reached an agreement in principle with the IRS to resolve all of the issues related to tax years 2005 through 2008, with the exception of interest calculations. We anticipate signing a closing agreement with the IRS for these years within the next 12 months. When signed, this closing agreement will not have a material effect on our consolidated results of operations, financial condition or liquidity.

At March 31, 2014, we had a net liability for unrecognized tax benefits of \$61 million. Of that amount, \$26 million is classified as a current liability in the Condensed Consolidated Statements of Financial Position.

**7. Earnings Per Share**

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

*Millions, Except Per Share Amounts,*

| <i>for the Three Months Ended March 31,</i> | <b>2014</b>     | <b>2013</b>   |
|---|-----------------|---------------|
|   | <b>\$ 1,088</b> | <b>\$ 957</b> |

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|  |                |         |
|--|----------------|---------|
| Net income   |                |         |
| Weighted-average number of shares outstanding:                   |                |         |
| Basic  | <b>454.1</b>   | 467.8   |
| Dilutive effect of stock options                                 | <b>1.2</b>     | 1.4     |
| Dilutive effect of retention shares and units                    | <b>0.9</b>     | 1.3     |
| <br>   |                |         |
| Diluted  | <b>456.2</b>   | 470.5   |
| <br>   |                |         |
| Earnings per share basic   | <b>\$ 2.40</b> | \$ 2.05 |
| Earnings per share diluted                                       | <b>\$ 2.38</b> | \$ 2.03 |
| Stock options excluded as their inclusion would be anti-dilutive | <b>0.3</b>     | 0.4     |

**Table of Contents****8. Accumulated Other Comprehensive Income/(Loss)**

Reclassifications out of accumulated other comprehensive income/(loss) for the three months ended March 31, 2014, and 2013, were as follows (net of tax):

| <i>Millions</i>  | <i>Defined<br/>benefit<br/>plans</i> | <i>Foreign<br/>currency<br/>translation</i> | <i>Derivatives</i> | <i>Total</i> |
|--|--------------------------------------|---|--------------------|--------------|
| Balance at January 1, 2014   | \$ (713)                             | \$ (37)                                     | \$ -               | \$ (750)     |
| Other comprehensive income/(loss) before reclassifications                       | 10                                   | (4)   | -                  | 6            |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a]      | 10                                   | -   | -                  | 10           |
| Net year-to-date other comprehensive income/(loss), net of taxes of \$5 million  | 20                                   | (4)   | -                  | 16           |
| Balance at March 31, 2014  | \$ (693)                             | \$ (41)                                     | \$ -               | \$ (734)     |
| Balance at January 1, 2013   | \$ (1,149)                           | \$ (36)                                     | \$ (1)             | \$ (1,186)   |
| Other comprehensive income/(loss) before reclassifications                       | (2)                                  | 3   | -                  | 1            |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a]      | 16                                   | -   | -                  | 16           |
| Net year-to-date other comprehensive income/(loss), net of taxes of \$12 million | 14                                   | 3   | -                  | 17           |
| Balance at March 31, 2013  | \$ (1,135)                           | \$ (33)                                     | \$ (1)             | \$ (1,169)   |

[a] The accumulated other comprehensive income/(loss) reclassification components are 1) prior service cost/(benefit) and 2) net actuarial loss which are both included in the computation of net periodic pension cost. See Note 4 Retirement Plans for additional details.

**9. 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 both March 31, 2014, and December 31, 2013, our accounts receivable were reduced by \$1 million. 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 March 31, 2014, and December 31, 2013, receivables classified as other assets were reduced by allowances of \$21 million and \$22 million, respectively.

**Receivables Securitization Facility** The Railroad maintains a \$600 million, 364-day receivables securitization facility under which it sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse, an undivided interest in accounts receivable to investors. The investors have no recourse to the Railroad's other assets except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

No amount was outstanding under the facility at both March 31, 2014, and December 31, 2013. The facility was supported by \$1.2 billion and \$1.1 billion of accounts receivable as collateral at March 31, 2014, and December 31, 2013, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amount the Railroad is allowed to maintain under the facility, with a maximum of \$600 million, may fluctuate based on the availability of eligible receivables and is directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the facility would

not materially change.

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The costs of the receivables securitization facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuing costs, and fees of participating banks for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$1 million for the three months ended March 31, 2014, and 2013.

In July 2013, the \$600 million receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

**10. Properties**

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

*Millions, Except Estimated Useful Life*

| <i>As of March 31, 2014</i>   | <i>Cost</i> | <i>Accumulated<br/>Depreciation</i> | <i>Net Book<br/>Value</i> | <i>Estimated<br/>Useful Life</i> |
|-------------------------------|-------------|-------------------------------------|---------------------------|----------------------------------|
| Land                          | \$ 5,128    | \$ N/A                              | \$ 5,128                  | N/A                              |
| Road:                         |             |                                     |                           |                                  |
| Rail and other track material | 14,053      | 5,048                               | 9,005                     | 33                               |
| Ties                          | 8,881       | 2,357                               | 6,524                     | 33                               |
| Ballast                       | 4,663       | 1,195                               | 3,468                     | 34                               |
| Other roadway [a]             | 15,737      | 2,784                               | 12,953                    | 48                               |
| Total road                    | 43,334      | 11,384                              | 31,950                    | N/A                              |
| Equipment:                    |             |                                     |                           |                                  |
| Locomotives                   | 7,724       | 3,544                               | 4,180                     | 20                               |
| Freight cars                  | 2,079       | 990                                 | 1,089                     | 25                               |
| Work equipment and other      | 559         | 126                                 | 433                       | 18                               |
| Total equipment               | 10,362      | 4,660                               | 5,702                     | N/A                              |
| Technology and other          | 797         | 286                                 | 511                       | 11                               |
| Construction in progress      | 898         | -                                   | 898                       | N/A                              |
| Total                         | \$ 60,519   | \$ 16,330                           | \$ 44,189                 | N/A                              |

*Millions, Except Estimated Useful Life*

| <i>As of December 31, 2013</i> | <i>Cost</i> | <i>Accumulated<br/>Depreciation</i> | <i>Net Book<br/>Value</i> | <i>Estimated<br/>Useful Life</i> |
|--------------------------------|-------------|-------------------------------------|---------------------------|----------------------------------|
| Land                           | \$ 5,120    | \$ N/A                              | \$ 5,120                  | N/A                              |

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|                               |           |           |           |     |
|-------------------------------|-----------|-----------|-----------|-----|
| Road:                         |           |           |           |     |
| Rail and other track material | 13,861    | 4,970     | 8,891     | 35  |
| Ties                          | 8,785     | 2,310     | 6,475     | 33  |
| Ballast                       | 4,621     | 1,171     | 3,450     | 34  |
| Other roadway [a]             | 15,596    | 2,726     | 12,870    | 48  |
|                               |           |           |           |     |
| Total road                    | 42,863    | 11,177    | 31,686    | N/A |
| Equipment:                    |           |           |           |     |
| Locomotives                   | 7,518     | 3,481     | 4,037     | 20  |
| Freight cars                  | 2,085     | 1,000     | 1,085     | 25  |
| Work equipment and other      | 561       | 119       | 442       | 18  |
|                               |           |           |           |     |
| Total equipment               | 10,164    | 4,600     | 5,564     | N/A |
|                               |           |           |           |     |
| Technology and other          | 711       | 286       | 425       | 10  |
| Construction in progress      | 954       | -         | 954       | N/A |
|                               |           |           |           |     |
| Total                         | \$ 59,812 | \$ 16,063 | \$ 43,749 | N/A |

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

**Table of Contents****11. Accounts Payable and Other Current Liabilities**

| <i>Millions</i>   | <i>Mar. 31,<br/>2014</i> | <i>Dec. 31,<br/>2013</i> |
|---|--------------------------|--------------------------|
| Accounts payable  | \$ 888                   | \$ 803                   |
| Income and other taxes payable                              | 877                      | 491                      |
| Dividends payable   | 407                      | 356                      |
| Accrued wages and vacation                                  | 395                      | 385                      |
| Accrued casualty costs                                      | 204                      | 207                      |
| Interest payable  | 130                      | 169                      |
| Equipment rents payable                                     | 101                      | 96                       |
| Other   | 554                      | 579                      |
| <b>Total accounts payable and other current liabilities</b> | <b>\$ 3,556</b>          | <b>\$ 3,086</b>          |

**12. 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.

**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 March 31, 2014, and December 31, 2013, we had reductions of \$1 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014, for a cash flow hedge that was settled in 2004. As of March 31, 2014, and December 31, 2013, 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 March 31, 2014, the fair value of total debt was \$11.1 billion, approximately \$0.9 billion more than the carrying value. At December 31, 2013, the fair value of total debt was \$10.2 billion, approximately \$0.6 billion more than the carrying value. The fair value of the Corporation's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules. At both March 31, 2014, and December 31, 2013, approximately \$163 million of debt securities contained call provisions that allow us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

**13. Debt**

**Credit Facilities** At March 31, 2014, 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 at any time during the three months ended March 31, 2014. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our

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senior unsecured debt. The facility matures in 2015 under a four-year term and requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At March 31, 2014, and December 31, 2013 (and at all times during the first quarter), 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 March 31, 2014, the debt-to-net-worth coverage ratio allowed us to carry up to \$43 billion of debt (as defined in the facility), and we had \$10.5 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a \$75 million cross-default provision and a change-of-control provision.

During the three months ended March 31, 2014, we did not issue or repay any commercial paper, and at March 31, 2014, 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.

During the three months ended March 31, 2014, we issued the following unsecured, fixed-rate debt securities under our current shelf registration:

| <i>Date</i>      | <i>Description of Securities</i>                   |
|------------------|--|
| January 10, 2014 | \$300 million of 2.25% Notes due February 15, 2019 |
|                  | \$400 million of 3.75% Notes due March 15, 2024    |
|                  | \$300 million of 4.85% Notes due June 15, 2044     |

We used the net proceeds from this offering for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At March 31, 2014, we had remaining authority to issue up to \$1.85 billion of debt securities under our shelf registration.

**Receivables Securitization Facility** As of March 31, 2014, and December 31, 2013, no amount was outstanding under our receivables securitization facility. See further discussion of our receivables securitization facility in Note 9.

**14. 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, 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



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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 VIEs. The future minimum lease payments associated with the VIE leases totaled \$3.2 billion as of March 31, 2014.

**15. 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 due to the uncertainty surrounding the timing of future payments. Approximately 92% of the recorded liability is related to asserted claims and approximately 8% is related to unasserted claims at March 31, 2014. 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 \$294 million to \$322 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

*Millions,*

| <i>for the Three Months Ended March 31,</i> | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| Beginning balance                           | \$ 294      | \$ 334      |
| Current year accruals                       | 23          | 27          |
| Changes in estimates for prior years        | (6)         | (8)         |
| Payments                                    | (17)        | (18)        |
| Ending balance at March 31                  | \$ 294      | \$ 335      |

|   |       |       |
|---|-------|-------|
| Current portion, ending balance at March 31 | \$ 78 | \$ 97 |
|---|-------|-------|

**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:

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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.

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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 20% of the recorded liability related to asserted claims and approximately 80% related to unasserted claims at March 31, 2014.

Our asbestos-related liability activity was as follows:

*Millions,*

| <i>for the Three Months Ended March 31,</i> | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| Beginning balance                           | \$ 131      | \$ 139      |
| Accruals                                    | -           | -           |
| Payments                                    | (2)         | (3)         |

|                            |        |        |
|----------------------------|--------|--------|
| Ending balance at March 31 | \$ 129 | \$ 136 |
|----------------------------|--------|--------|

|   |      |      |
|---|------|------|
| Current portion, ending balance at March 31 | \$ 9 | \$ 9 |
|---|------|------|

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at March 31, 2014, and December 31, 2013.

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 269 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 31 sites that are the subject of actions taken by the U.S. government, 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 both March 31, 2014, and December 31, 2013, none of our environmental liability was discounted.

Our environmental liability activity was as follows:

*Millions,*

| <i>for the Three Months Ended March 31,</i> | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| Beginning balance                           | \$ 171      | \$ 170      |
| Accruals                                    | 6           | 7           |
| Payments                                    | (11)        | (11)        |

|                            |        |        |
|----------------------------|--------|--------|
| Ending balance at March 31 | \$ 166 | \$ 166 |
|----------------------------|--------|--------|

|   |       |       |
|---|-------|-------|
| Current portion, ending balance at March 31 | \$ 52 | \$ 50 |
|---|-------|-------|

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

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

**Guarantees** At both March 31, 2014, and December 31, 2013, we were contingently liable for guarantees of \$299 million. We have recorded a liability of \$1 million for the fair value of these obligations as of both March 31, 2014, and December 31, 2013. 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 March 31, 2014, 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 billion.

**Gain Contingency** UPRR and Santa Fe Pacific Pipelines (SFPP, a subsidiary of Kinder Morgan Energy Partners, L.P.) currently are engaged in a proceeding to resolve the fair market rent payable to UPRR under a 10-year agreement commencing 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 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 March 31, 2014.

**Table of Contents****16. Share Repurchase Program**

Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 60 million shares of our common stock by December 31, 2017, replacing our previous repurchase program. As of March 31, 2014, we repurchased a total of \$10.0 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased in the first quarter of 2013 under our previous repurchase program, and shares repurchased in the first quarter of 2014 under the new program.

|               | <i>Number of Shares Purchased</i> |             | <i>Average Price Paid</i> |             |
|---------------|-----------------------------------|-------------|---------------------------|-------------|
|               | <i>2014</i>                       | <i>2013</i> | <i>2014</i>               | <i>2013</i> |
| First quarter | <b>3,820,000</b>                  | 2,881,400   | <b>\$ 178.85</b>          | \$ 136.58   |

Remaining number of shares that may be repurchased under current authority 56,180,000

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

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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 Months Ended March 31, 2014, Compared to**

**Three Months Ended March 31, 2013**

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

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

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

**Available Information**

Our Internet website is [www.up.com](http://www.up.com). We make available free of charge on our website (under the "Investors" caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; eXtensible Business Reporting Language (XBRL) documents; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to any such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC's Internet site at [www.sec.gov](http://www.sec.gov). We provide these previously filed reports as a convenience and their contents reflect only information that was true and correct as of the date of the report. We assume no obligation to update this historical information. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

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

**Critical Accounting Policies and Estimates**

We base our discussion and analysis of our financial condition and results of operations upon our Condensed Consolidated Financial Statements. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ materially from actual results, the impact on the Condensed Consolidated Financial Statements may be material. Our critical accounting policies are available in Item 7 of our 2013 Annual

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Report on Form 10-K. There have not been any significant changes with respect to these policies during the first three months of 2014.

**RESULTS OF OPERATIONS****Quarterly Summary**

We reported earnings of \$2.38 per diluted share on net income of \$1.1 billion in the first quarter of 2014 compared to earnings of \$2.03 per diluted share on net income of \$1.0 billion for the first quarter of 2013. Freight revenues increased 6%, or \$302 million, in the first quarter compared to the same period in 2013 driven by 5% volume growth and higher average revenue per car (ARC) due to core pricing gains. Volume growth in grain, coal, domestic intermodal, frac sand and rock offset declines in international intermodal and crude oil. Despite incremental cost increases due to the severe winter, the first quarter of 2014 generated record financial results, reflecting our ability to leverage additional volumes and the impact of improved pricing and lower fuel prices.

As reported to the Association of American Railroads (AAR), average train speed decreased 7% and average terminal dwell time increased 12% during the first quarter of 2014 compared to 2013. The results were driven by severe winter weather, impacting all major U.S. and Canadian railroads, and increased demand. Moderating weather, along with effective deployment of surge resources, improved the fluidity of the network late in the quarter.

**Operating Revenues**

Millions,

| <i>for the Three Months Ended March 31,</i> | <b>2014</b>     | <b>2013</b>     | <b>%<br/>Change</b> |
|---|-----------------|-----------------|---------------------|
| Freight revenues                            | \$ 5,286        | \$ 4,984        | 6%                  |
| Other revenues                              | 352             | 306             | 15                  |
| <b>Total</b>                                | <b>\$ 5,638</b> | <b>\$ 5,290</b> | <b>7%</b>           |

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

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

Freight revenues for all six commodity groups increased during the first quarter of 2014 compared to 2013 as a result of economic improvements in certain market sectors. Volume levels increased for five of the six commodity groups, with particularly strong growth in agricultural products and industrial products. ARC increased 1% during the period driven by pricing gains.

Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were \$651 million in the first quarter of 2014, compared to \$636 million in the same period of 2013. Higher fuel surcharge recoveries were driven by increased volume partially offset by the lower fuel prices and the lag impact of our fuel surcharge programs (it can generally take up to two months for changing fuel prices to affect fuel surcharge recoveries).

In the first quarter of 2014, other revenues increased from 2013 due to higher revenues at our subsidiaries, primarily those that broker intermodal and automotive services, and accessorial revenue.





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

**Freight Revenues**

| <i>Millions,</i>                            |                 |                 |               | <i>%</i> |
|---|-----------------|-----------------|---------------|----------|
| <i>for the Three Months Ended March 31,</i> | <i>2014</i>     | <i>2013</i>     | <i>Change</i> |          |
| Agricultural                                | \$ 910          | \$ 784          | 16%           |          |
| Automotive                                  | 488             | 487             | -             |          |
| Chemicals                                   | 893             | 873             | 2             |          |
| Coal  | 961             | 936             | 3             |          |
| Industrial Products                         | 1,011           | 916             | 10            |          |
| Intermodal                                  | 1,023           | 988             | 4             |          |
| <b>Total</b>                                | <b>\$ 5,286</b> | <b>\$ 4,984</b> | <b>6%</b>     |          |

**Revenue Carloads**

| <i>Thousands,</i>                           |              |              |               | <i>%</i> |
|---|--------------|--------------|---------------|----------|
| <i>for the Three Months Ended March 31,</i> | <i>2014</i>  | <i>2013</i>  | <i>Change</i> |          |
| Agricultural                                | 239          | 212          | 13%           |          |
| Automotive                                  | 188          | 184          | 2             |          |
| Chemicals                                   | 270          | 271          | -             |          |
| Coal  | 430          | 402          | 7             |          |
| Industrial Products                         | 314          | 289          | 9             |          |
| Intermodal [a]                              | 833          | 810          | 3             |          |
| <b>Total</b>                                | <b>2,274</b> | <b>2,168</b> | <b>5%</b>     |          |

**Average Revenue per Car**

| <i>for the Three Months Ended March 31,</i> | <i>2014</i>     | <i>2013</i>     | <i>Change</i> | <i>%</i> |
|---|-----------------|-----------------|---------------|----------|
| Agricultural                                | \$ 3,815        | \$ 3,694        | 3%            |          |
| Automotive                                  | 2,591           | 2,648           | (2)           |          |
| Chemicals                                   | 3,307           | 3,225           | 3             |          |
| Coal  | 2,236           | 2,329           | (4)           |          |
| Industrial Products                         | 3,218           | 3,174           | 1             |          |
| Intermodal [a]                              | 1,227           | 1,219           | 1             |          |
| <b>Average</b>                              | <b>\$ 2,324</b> | <b>\$ 2,299</b> | <b>1%</b>     |          |

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

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*Agricultural Products* Higher volume and price increases drove the increase in freight revenue from agricultural shipments in the first quarter of 2014 versus 2013. Grain shipments increased 39% in the first quarter of 2014 versus 2013, reflecting the impact of the severe drought in 2012 that affected territory served by us during the first quarter of 2013. Higher grain exports also drove the increase in grain shipments.

*Automotive* Freight revenue from automotive shipments increased slightly compared to the first quarter of 2013. Declines in shipments of finished vehicles partially offset core price improvements and more shipments of automotive parts. Winter weather negatively impacted vehicle sales and shipments of finished vehicles, while volume for automotive parts increased from the first quarter of 2013 driven by continued strength in production.

*Chemicals* Core price improvements increased freight revenue from chemicals in the first quarter of 2014 versus 2013. Shipments of industrial chemicals increased due to continuing strong demand in the drilling market in the first quarter of 2014. Shipments of crude oil from the Bakken, Permian and Eagle Ford shale formations to the Gulf area declined as crude to diesel spread differentials and the growing Gulf supply have displaced some of the shipments, previously moving to the Gulf area, to the East Coast.

*Coal* Higher volume, partially offset by lower ARC driven by negative business mix, increased freight revenue from coal shipments in the first quarter of 2014 compared to 2013. Severe winter weather

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conditions, low inventories at utilities and higher natural gas prices drove the increase in coal volume. Shipments from Southern Powder River Basin (SPRB) and Colorado and Utah mines increased 3% and 12%, respectively, from the first quarter of 2013.

*Industrial Products* Volume growth and core pricing gains increased freight revenue from industrial products in the first quarter of 2014 versus 2013. Shipments of non-metallic minerals (primarily frac sand) grew as a result of drilling activity for energy products. Additionally, growth in construction-related materials increased from the first quarter of 2013. Pricing gains were partially offset by a shift in business mix, including traffic with shorter lengths of haul impacting ARC.

*Intermodal* Increased shipments and core pricing improvement drove higher freight revenue from intermodal shipments in the first quarter of 2014 compared to the same period in 2013. First quarter volume levels from domestic traffic increased 8% versus the first quarter of 2013 driven by continued conversions from trucks and new premium services. International traffic for the quarter was down 1% compared to a strong prior year as severe weather negatively impacted consumer demand.

*Mexico Business* Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business increased 7% to \$540 million in the first quarter of 2014 versus the same period in 2013. Volume levels increased 8% from the first quarter of 2013, as increases in agricultural products, automotive, intermodal and chemicals more than offset declines in coal and industrial products.

**Operating Expenses**

Millions,

| for the Three Months Ended March 31, | 2014     | 2013     | %<br>Change |
|--------------------------------------|----------|----------|-------------|
| Compensation and benefits            | \$ 1,254 | \$ 1,216 | 3%          |
| Fuel                                 | 921      | 900      | 2           |
| Purchased services and materials     | 607      | 557      | 9           |
| Depreciation                         | 464      | 434      | 7           |
| Equipment and other rents            | 312      | 313      | -           |
| Other                                | 226      | 237      | (5)         |
| Total                                | \$ 3,784 | \$ 3,657 | 3%          |

Operating expenses increased \$127 million in the first quarter of 2014 versus the comparable period in 2013. Volume related expenses (including fuel), depreciation, wage and benefit inflation, and locomotive and freight car materials contributed to higher expenses during the period. In the first quarter of 2014, lower fuel price and damaged freight and equipment expense partially offset these increases. In addition, weather related costs increased expenses by approximately \$35 million for the first quarter of 2014.

*Compensation and Benefits* Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. Volume-related expenses from a larger train and engine work force, weather related costs, and general wage and benefit inflation drove the 3% increase versus the first quarter of 2013.

*Fuel* Fuel includes locomotive fuel and gasoline for highway and non-highway vehicles and heavy equipment. Fuel costs were higher as gross-ton miles increased 5% in the first quarter. The fuel consumption rate, computed as gallons of fuel consumed divided by gross ton-miles in thousands, increased slightly compared to the first quarter of 2013. Increases in heavier, more fuel-efficient shipments, which generally move from a single source to a single destination, drove the gross-ton-mile increase and kept the fuel consumption rate essentially flat despite negative operational impacts of severe winter weather. Locomotive diesel fuel prices, which averaged \$3.12 per gallon (including taxes and transportation costs) in the first quarter of 2014, compared to \$3.23 per gallon in the same period in 2013, decreased expenses by \$30 million.

*Purchased Services and Materials* Expense for purchased services and materials includes the costs of services purchased from outside contractors and other service providers (including equipment maintenance and contract expenses incurred by our subsidiaries for external transportation services); materials used to maintain the Railroad's lines, structures, and equipment; costs of operating facilities



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jointly used by UPRR and other railroads; transportation and lodging for train crew employees; trucking and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Purchased services increased 6% compared to the first quarter of 2013, primarily due to volume-related expense incurred by our logistics subsidiaries for external transportation; increased crew transportation and lodging due to volume and weather; and snow removal. Locomotive and freight car material expenses increased in the first quarter of 2014 compared to the first quarter of 2013, due to additional volumes including equipment taken out of storage to support operational issues caused by weather conditions and demand.

*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 first quarter of 2014 compared to 2013.

*Equipment and Other Rents* Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; and office and other rentals. More intermodal and automotive shipments and longer cycle times increased short-term freight car rental expense in the first quarter of 2014, compared to 2013. Conversely, lower container lease expense offset the higher freight car rental expense as we exercised purchase options on some of our leased equipment.

*Other* Other expenses include state and local taxes; freight, equipment and property damage; utilities, insurance, personal injury, environmental, employee travel, telephone and cellular, computer software, bad debt and other general expenses. Other costs in the first quarter decreased from 2013 as lower freight and equipment damage, environmental, and personal injury expense more than offset higher utility costs.

**Non-Operating Items**

Millions,

| <i>for the Three Months Ended March 31,</i> | <b>2014</b> | <b>2013</b> | <b>%<br/>Change</b> |
|---|-------------|-------------|---------------------|
| Other income                                | \$ 38       | \$ 40       | (5)                 |
| Interest expense                            | (133)       | (128)       | 4                   |
| Income taxes                                | (671)       | (588)       | 14%                 |

*Other Income* Other income decreased in the first quarter of 2014 versus the same period of 2013 as the \$17 million received from a settlement of a land lease arrangement in 2013 more than offset an increase due to the sale of a permanent easement in the first quarter of 2014.

*Interest Expense* Interest expense increased in the first quarter of 2014 versus 2013 due to an increased weighted-average debt level of \$10.1 billion in 2014 versus \$9.3 billion in 2013.

*Income Taxes* Higher pre-tax income increased income taxes in the first quarter of 2014 compared to 2013. Our effective tax rate for both periods was 38.1%.

**OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS**

We report a number of key performance measures weekly to the Association of American Railroads (AAR). We provide this data on our website at [www.up.com/investors/reports/index.shtml](http://www.up.com/investors/reports/index.shtml).

**Table of Contents****Operating/Performance Statistics**

Railroad performance measures are included in the table below:

|   |               |             | %                |
|---|---------------|-------------|------------------|
| <i>For the Three Months Ended March 31,</i> | <b>2014</b>   | <b>2013</b> | <b>Change</b>    |
| Average train speed (miles per hour)        | <b>24.5</b>   | 26.4        | <b>(7) %</b>     |
| Average terminal dwell time (hours)         | <b>30.7</b>   | 27.4        | <b>12 %</b>      |
| Gross ton-miles (billions)                  | <b>240.2</b>  | 227.7       | <b>5 %</b>       |
| Revenue ton-miles (billions)                | <b>131.5</b>  | 124.0       | <b>6 %</b>       |
| Operating ratio                             | <b>67.1</b>   | 69.1        | <b>(2.0) pts</b> |
| Employees (average)                         | <b>46,166</b> | 46,437      | <b>(1) %</b>     |

*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), decreased 7% in the first quarter of 2014 versus the first quarter of 2013. Severe weather conditions impacting all major U.S. and Canadian railroads, volume increases and continuing shifts of traffic to areas that are operating closer to current capacity drove this decline.

*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 increased 12% in the first quarter of 2014 compared to the first quarter of 2013, reflecting the impact of winter weather and higher volumes.

*Gross and Revenue Ton-Miles* Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles and revenue ton-miles increased 5% and 6%, respectively, during the first quarter of 2014 compared to 2013, driven by a 5% increase in carloadings.

*Operating Ratio* Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our operating ratio improved 2.0 points to a first quarter record of 67.1% in 2014 versus the same period of 2013. Core pricing gains and productivity more than offset the impact of higher volume, weather costs, and inflation.

*Employees* Employee levels decreased 1% in the first quarter of 2014 compared to the same period in 2013. The impact of weather reduced the amount of work we could perform on capital projects, which partially offset the larger train and engine work force required for higher volume levels. We successfully managed the growth of our full-time-equivalent train and engine force levels at a rate less than our carload growth in the first quarter of 2014 compared to the same period in 2013.

**Table of Contents****Debt to Capital / Adjusted Debt to Capital**

|                                     | <i>Mar. 31,</i> | <i>Dec. 31,</i> |
|-------------------------------------|-----------------|-----------------|
| <i>Millions, Except Percentages</i> | <i>2014</i>     | <i>2013</i>     |
| Debt (a)                            | \$ 10,176       | \$ 9,577        |
| Equity                              | 21,272          | 21,225          |
| Capital (b)                         | \$ 31,448       | \$ 30,802       |
|                                     | 32.4%           | 31.1%           |
| Debt to capital (a/b)               |                 |                 |

|                                       | <i>Mar. 31,</i> | <i>Dec. 31,</i> |
|---------------------------------------|-----------------|-----------------|
| <i>Millions, Except Percentages</i>   | <i>2014</i>     | <i>2013</i>     |
| Debt                                  | \$ 10,176       | \$ 9,577        |
| Net present value of operating leases | 2,946           | 3,057           |
| Unfunded pension and OPEB             | 154             | 170             |
| Adjusted debt (a)                     | 13,276          | 12,804          |
| Equity                                | 21,272          | 21,225          |
| Adjusted capital (b)                  | \$ 34,548       | \$ 34,029       |
|                                       | 38.4%           | 37.6%           |
| Adjusted debt to capital (a/b)        |                 |                 |

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K, and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating the total amount of leverage in our capital structure, including off-balance sheet lease obligations, which we generally incur in connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating leases were discounted using 5.6% at March 31, 2014, and 5.7% at December 31, 2013. The discount rate reflects our effective interest rate. We monitor the ratio of adjusted debt to capital as we manage our capital structure to balance cost-effective and efficient access to the capital markets with the Corporation's overall cost of capital. Adjusted debt to capital should be considered in addition to, rather than as a substitute for, debt to capital. The tables above provide reconciliations from debt to capital to adjusted debt to capital.

**LIQUIDITY AND CAPITAL RESOURCES****Financial Condition****Cash Flows**

*Millions,*

| <i>for the Three Months Ended March 31</i>      | <i>2014</i> | <i>2013</i> |
|---|-------------|-------------|
| Cash provided by operating activities           | \$ 1,767    | \$ 1,524    |
| Cash used in investing activities               | (905)       | (800)       |
| Cash (used in)/provided by financing activities | (437)       | 130         |
|   |             | \$ 854      |
| Net change in cash and cash equivalents         | \$ 425      |             |



**Operating Activities**

Higher net income in the first three months of 2014 increased cash provided by operating activities compared to the same period of 2013.

**Investing Activities**

Higher capital investments in the first three months of 2014 drove the increase in cash used in investing activities compared to the same period in 2013.

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The table below details cash capital investments:

*Millions,*

| <i>for the Three Months Ended March 31,</i>     | <b>2014</b>   | <b>2013</b>   |
|---|---------------|---------------|
| Rail and other track material                   | \$ 175        | \$ 174        |
| Ties  | 95            | 112           |
| Ballast   | 44            | 46            |
| Other [a]                                       | 60            | 46            |
| <b>Total road infrastructure replacements</b>   | <b>374</b>    | <b>378</b>    |
| Line expansion and other capacity projects      | 108           | 93            |
| Commercial facilities                           | 46            | 19            |
| <b>Total capacity and commercial facilities</b> | <b>154</b>    | <b>112</b>    |
| Locomotives and freight cars                    | 227           | 150           |
| Positive train control                          | 87            | 96            |
| Technology and other                            | 51            | 46            |
| <b>Total cash capital investments</b>           | <b>\$ 893</b> | <b>\$ 782</b> |

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

**Capital Plan**

As previously announced, we intend to make new capital investments of approximately \$3.9 billion under our capital plan in 2014, which we may revise if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments.

**Financing Activities**

Cash used in financing activities increased in the first three months of 2014 versus the same period of 2013, driven by higher dividend payments in 2014 of \$363 million compared to \$323 million in 2013, an increase of \$319 million in debt repaid, and an increase of \$270 million for the repurchase of shares under our common stock repurchase program.

**Free Cash Flow** Free cash flow is defined as cash provided by operating activities less cash used in investing activities and dividends paid. Higher net income increased free cash flow in the first quarter of 2014.

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

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Millions,

| <i>for the Three Months Ended March 31,</i> | <i>2014</i> | <i>2013</i> |
|---|-------------|-------------|
| Cash provided by operating activities       | \$ 1,767    | \$ 1,524    |
| Cash used in investing activities           | (905)       | (800)       |
| Dividends paid                              | (363)       | (323)       |
| <br>  |             |             |
| Free cash flow                              | \$ 499      | \$ 401      |

**Credit Facilities** At March 31, 2014, 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 at any time during the three months ended March 31, 2014. Commitment fees and interest rates payable under the facility are similar to fees and rates

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available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The facility matures in 2015 under a four-year term and requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At March 31, 2014, and December 31, 2013 (and at all times during the first quarter), 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 March 31, 2014, the debt-to-net-worth coverage ratio allowed us to carry up to \$43 billion of debt (as defined in the facility), and we had \$10.5 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a \$75 million cross-default provision and a change-of-control provision.

During the three months ended March 31, 2014, we did not issue or repay any commercial paper, and at March 31, 2014, 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.

During the three months ended March 31, 2014, we issued the following unsecured, fixed-rate debt securities under our current shelf registration:

| <i>Date</i>      | <i>Description of Securities</i>                   |
|------------------|--|
| January 10, 2014 | \$300 million of 2.25% Notes due February 15, 2019 |
|                  | \$400 million of 3.75% Notes due March 15, 2024    |
|                  | \$300 million of 4.85% Notes due June 15, 2044     |

We used the net proceeds from this offering for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At March 31, 2014, we had remaining authority to issue up to \$1.85 billion of debt securities under our shelf registration.

**Receivables Securitization Facility** The Railroad maintains a \$600 million, 364-day receivables securitization facility under which it sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse, an undivided interest in accounts receivable to investors. The investors have no recourse to the Railroad's other assets except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

No amount was outstanding under the facility at both March 31, 2014, and December 31, 2013. The facility was supported by \$1.2 billion and \$1.1 billion of accounts receivable as collateral at March 31, 2014, and December 31, 2013, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amount the Railroad is allowed to maintain under the facility, with a maximum of \$600 million, may fluctuate based on the availability of eligible receivables and is directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution

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ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the facility would not materially change.

The costs of the receivables securitization facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuing costs, and fees of participating banks for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$1 million for the three months ended March 31, 2014, and 2013.

In July 2013, the \$600 million receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

**Share Repurchase Program**

Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 60 million shares of our common stock by December 31, 2017, replacing our previous repurchase program. As of March 31, 2014, we repurchased a total of \$10.0 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased in the first quarter of 2013 under our previous repurchase program, and shares repurchased in the first quarter of 2014 under the new program.

|               | <i>Number of Shares Purchased</i> |             | <i>Average Price Paid</i> |             |
|---------------|-----------------------------------|-------------|---------------------------|-------------|
|               | <i>2014</i>                       | <i>2013</i> | <i>2014</i>               | <i>2013</i> |
| First quarter | <b>3,820,000</b>                  | 2,881,400   | <b>\$ 178.85</b>          | \$ 136.58   |

Remaining number of shares that may be repurchased under current authority 56,180,000

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

**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 March 31, 2014:

| <i>Millions</i>                      | <i>Total</i>     | <i>Apr. 1</i>   | <i>Payments Due by Dec. 31,</i> |                 |                 |                 |                  | <i>After</i> | <i>Other</i> |
|--------------------------------------|------------------|-----------------|---------------------------------|-----------------|-----------------|-----------------|------------------|--------------|--------------|
|                                      |                  | <i>through</i>  | <i>2014</i>                     | <i>2015</i>     | <i>2016</i>     | <i>2017</i>     | <i>2018</i>      |              |              |
| <b>Contractual Obligations</b>       |                  |                 |                                 |                 |                 |                 |                  |              |              |
|                                      |                  | <i>Dec. 31,</i> |                                 |                 |                 |                 |                  |              |              |
| Debt [a]                             | \$ 15,686        | \$ 504          | \$ 690                          | \$ 819          | \$ 852          | \$ 759          | \$ 12,062        | \$ -         |              |
| Operating leases [b]                 | 3,893            | 320             | 482                             | 445             | 404             | 334             | 1,908            | -            |              |
| Capital lease obligations [c]        | 2,033            | 144             | 242                             | 242             | 242             | 223             | 940              | -            |              |
| Purchase obligations [d]             | 4,883            | 2,235           | 919                             | 456             | 320             | 257             | 664              | 32           |              |
| Other postretirement benefits [e]    | 426              | 31              | 42                              | 43              | 44              | 45              | 221              | -            |              |
| Income tax contingencies [f]         | 61               | 26              | -                               | -               | -               | -               | -                | 35           |              |
| <b>Total contractual obligations</b> | <b>\$ 26,982</b> | <b>\$ 3,260</b> | <b>\$ 2,375</b>                 | <b>\$ 2,005</b> | <b>\$ 1,862</b> | <b>\$ 1,618</b> | <b>\$ 15,795</b> | <b>\$ 67</b> |              |

[a] Excludes capital lease obligations of \$1,615 million and unamortized discount of (\$603) million. Includes an interest component of \$6,522 million.

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

[c] Represents total obligations, including interest component of \$418 million.

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

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

[f] Future cash flows for income tax contingencies reflect the recorded liabilities and assets for unrecognized tax benefits, including interest and penalties, as of March 31, 2014. For amounts where the year of settlement is uncertain, they are reflected in the Other column.

| <i>Millions</i>                         | <i>Total</i> | <i>Apr. 1</i>   | <i>Amount of Commitment Expiration by Dec. 31,</i> |             |             |             |             | <i>After</i> |
|---|--------------|-----------------|--|-------------|-------------|-------------|-------------|--------------|
|   |              | <i>through</i>  | <i>2014</i>  | <i>2015</i> | <i>2016</i> | <i>2017</i> | <i>2018</i> |              |
| <b>Other Commercial Commitments</b>     |              |                 |  |             |             |             |             |              |
|   |              | <i>Dec. 31,</i> |  |             |             |             |             |              |
| Credit facilities [a]                   | \$ 1,800     | \$ -            | \$ 1,800   | \$ -        | \$ -        | \$ -        | \$ -        | \$ -         |
| Receivables securitization facility [b] | 600          | 600             | -  | -           | -           | -           | -           | -            |

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|                               |          |        |          |       |       |       |       |
|-------------------------------|----------|--------|----------|-------|-------|-------|-------|
| Guarantees [c]                | 299      | 214    | 12       | 30    | 10    | 11    | 22    |
| Standby letters of credit [d] | 26       | 10     | 16       | -     | -     | -     | -     |
|                               | \$ 2,725 | \$ 824 | \$ 1,828 | \$ 30 | \$ 10 | \$ 11 | \$ 22 |
| Total commercial commitments  |          |        |          |       |       |       |       |

[a] None of the credit facility was used as of March 31, 2014.

[b] None of the receivables securitization facility was utilized at March 31, 2014. The full program matures in July 2014.

[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 March 31, 2014.

**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.

**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 2013 Annual Report on Form 10-K, filed February 7, 2014, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements, and this report, including this Item 2, should be read in conjunction with these Risk Factors. To the extent circumstances require or we deem it otherwise necessary, we will update or amend these risk factors in a Form 10-Q or Form 8-K. Information regarding new risk factors or material changes to our risk factors, if any, is set forth in Item 1A of Part II of this report. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2013 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



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

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

There were no material changes to existing legal proceedings during the period covered by this report.

**Environmental Matters**

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

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Environmental, Item 7 of our 2013 Annual Report on Form 10-K.

**Item 1A. Risk Factors**

There were no material changes from the risk factors previously disclosed in our 2013 Annual Report on Form 10-K.

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**Purchases of Equity Securities** The following table presents common stock repurchases during each month for the first quarter of 2014:

| <i>Period</i>          | <i>Total Number of<br/>Shares<br/>Purchased [a]</i> | <i>Average<br/>Price Paid<br/>Per Share</i> | <i>Total Number of<br/>Shares<br/>Purchased as Part of<br/>Publicly Announced Plan or<br/>Program [b]</i> | <i>Maximum Number<br/>of<br/>Shares That May Be<br/>Purchased Under Current<br/>Authority [b]</i> |
|------------------------|---|---|---|---|
| Jan. 1 through Jan. 31 | 1,034,083   | \$ 170.49                                   | 1,020,000   | 58,980,000  |
| Feb. 1 through Feb. 28 | 1,520,379   | 176.72                                      | 1,330,000   | 57,650,000  |
| Mar. 1 through Mar. 31 | 1,500,727   | 186.24                                      | 1,470,000   | 56,180,000  |
| <b>Total</b>           | <b>4,055,189</b>                                    | <b>\$ 178.65</b>                            | <b>3,820,000</b>  | <b>N/A</b>  |

[a] Total number of shares purchased during the quarter includes 235,189 shares delivered or attested to UPC by employees to pay stock option exercise prices, satisfy excess tax withholding obligations for stock option exercises or vesting of retention units, and pay withholding obligations for vesting of retention shares.

[b] Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 60 million shares of our common stock by December 31, 2017. These repurchases may be made on the open market or through other transactions. Our management has sole discretion with respect to determining the timing and amount of these transactions.

**Dividend Restrictions** Our revolving credit facility includes a debt-to-net worth covenant that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was \$16.0 billion and \$16.3 billion at March 31, 2014, and December 31, 2013, respectively.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

| <u>Exhibit No.</u>               | <u>Description</u>  |
|----------------------------------|---|
| <u>Filed with this Statement</u> |   |
| 12                               | Ratio of Earnings to Fixed Charges for the Three Months Ended March 31, 2014 and 2013.  |
| 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 March 31, 2014 (filed with the SEC on April 17, 2014), is formatted in XBRL and submitted electronically herewith: (i) Condensed Consolidated Statements of Income for the periods ended March 31, 2014 and 2013, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended March 31, 2014 and 2013, (iii) Condensed Consolidated Statements of Financial Position at March 31, 2014 and December 31, 2013, (iv) Condensed Consolidated Statements of Cash Flows for the periods ended March 31, 2014 and 2013, (v) Condensed Consolidated Statements of Changes in Common Shareholders' Equity for the periods ended March 31, 2014 and 2013, 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.   |
| 4(a)                             | Form of 2.250% Note due 2019 is incorporated by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated January 10, 2014.  |
| 4(b)                             | Form of 3.750% Note due 2024 is incorporated by reference to Exhibit 4.2 to the Corporation's Current Report on Form 8-K dated January 10, 2014.  |
| 4(c)                             | Form of 4.850% Note due 2044 is incorporated by reference to Exhibit 4.3 to the Corporation's Current Report on Form 8-K dated January 10, 2014.  |

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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: April 17, 2014

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)