L

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

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

1400 Douglas Street, Omaha, Nebraska
(Address of principal executive offices)

68179
(Zip Code)

(402) 544-5000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Trading Symbol	Name of each exchange on which registered
Common Stock (Par Value $2.50 per share)	UNP	New York Stock Exchange

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.
x Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
x Yes ☐ No

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

Large Accelerated Filer	Accelerated Filer	Accelerated Filer	Smaller Reporting Company	Emerging Growth Company
x	☐	☐	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
☐ Yes x No

As of July 12, 2019, there were 704,529,750 shares of the Registrant's Common Stock outstanding.

TABLE OF CONTENTS
UNION PACIFIC CORPORATION
AND SUBSIDIARY COMPANIES

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

Millions, Except Per Share Amounts, for the Three Months Ended June 30,	***2019***	*2018*
Operating revenues:		
Freight revenues	**$ 5,236**	$ 5,317
Other revenues	**360**	355
Total operating revenues	**5,596**	5,672
Operating expenses:		
Compensation and benefits	**1,145**	1,241
Purchased services and materials	**573**	630
Depreciation	**551**	546
Fuel	**560**	643
Equipment and other rents	**260**	265
Other	**247**	248
Total operating expenses	**3,336**	3,573
Operating income	**2,260**	2,099
Other income (Note 6)	**57**	42
Interest expense	**(259)**	(203)
Income before income taxes	**2,058**	1,938
Income taxes	**(488)**	(429)
Net income	**$ 1,570**	$ 1,509
Share and Per Share (Note 8):		
Earnings per share - basic	**$ 2.23**	$ 1.98
Earnings per share - diluted	**$ 2.22**	$ 1.98
Weighted average number of shares - basic	**705.5**	760.5
Weighted average number of shares - diluted	**708.0**	763.7

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

Millions, for the Three Months Ended June 30,	***2019***	*2018*
Net income	**$ 1,570**	$ 1,509

Other comprehensive income/(loss):		
Defined benefit plans	**82**	18
Foreign currency translation	**(2)**	(24)
Total other comprehensive income/(loss) [a]	**80**	(6)
Comprehensive income	**$ 1,650**	$ 1,503

[a] Net of deferred taxes of $(27) million and $(7) million during the three months ended June 30, 2019, and 2018, respectively.
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents

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

Millions, Except Per Share Amounts, for the Six Months Ended June 30,	***2019***	*2018*
Operating revenues:		
Freight revenues	**$ 10,246**	$ 10,439
Other revenues	**734**	708
Total operating revenues	**10,980**	11,147
Operating expenses:		
Compensation and benefits	**2,350**	2,514
Purchased services and materials	**1,149**	1,229
Depreciation	**1,100**	1,089
Fuel	**1,091**	1,232
Equipment and other rents	**518**	531
Other	**552**	514
Total operating expenses	**6,760**	7,109
Operating income	**4,220**	4,038
Other income (Note 6)	**134**	-
Interest expense	**(506)**	(389)
Income before income taxes	**3,848**	3,649
Income taxes	**(887)**	(830)
Net income	**$ 2,961**	$ 2,819
Share and Per Share (Note 8):		
Earnings per share - basic	**$ 4.16**	$ 3.67
Earnings per share - diluted	**$ 4.15**	$ 3.65
Weighted average number of shares - basic	**711.2**	768.4
Weighted average number of shares - diluted	**713.8**	771.6

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

Millions, for the Six Months Ended June 30,	***2019***	*2018*
Net income	**$ 2,961**	$ 2,819
Other comprehensive income/(loss):		
Defined benefit plans	**92**	37
Foreign currency translation	**25**	(24)
Total other comprehensive income/(loss) [a]	**117**	13
Comprehensive income	**$ 3,078**	$ 2,832

[a] Net of deferred taxes of $(31) million and $(13) million during the six months ended June 30, 2019, and 2018, 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

Millions, Except Share and Per Share Amounts		***June 30, 2019***		*December 31, 2018*
Assets				
Current assets:				
Cash and cash equivalents	**$**	**1,049**	$	1,273
Short-term investments (Note 13)		**60**		60
Accounts receivable, net (Note 10)		**1,809**		1,755
Materials and supplies		**775**		742
Other current assets		**393**		333
Total current assets		**4,086**		4,163
Investments		**1,989**		1,912
Net properties (Note 11)		**53,115**		52,679
Operating lease assets (Note 16)		**2,076**		-
Other assets		**442**		393
Total assets	**$**	**61,708**	$	59,147
Liabilities and Common Shareholders' Equity				
Current liabilities:				
Accounts payable and other current liabilities (Note 12)	**$**	**3,368**	$	3,160
Debt due within one year (Note 14)		**2,297**		1,466
Total current liabilities		**5,665**		4,626
Debt due after one year (Note 14)		**22,955**		20,925
Operating lease liabilities (Note 16)		**1,612**		-
Deferred income taxes		**11,574**		11,302
Other long-term liabilities		**1,731**		1,871
Commitments and contingencies (Note 17)				
Total liabilities		**43,537**		38,724
Common shareholders' equity:				
Common shares, $2.50 par value, 1,400,000,000 authorized; 1,112,046,154 and 1,111,739,781 issued; 704,942,478 and 725,056,690 outstanding, respectively		**2,780**		2,779
Paid-in-surplus		**3,954**		4,449
Retained earnings		**46,997**		45,284
Treasury stock		**(34,262)**		(30,674)
Accumulated other comprehensive loss (Note 9)		**(1,298)**		(1,415)
Total common shareholders' equity		**18,171**		20,423
Total liabilities and common shareholders' equity	**$**	**61,708**	$	59,147

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

Table of Contents

Condensed Consolidated Statements of Cash Flows (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, for the Six Months Ended June 30,		***2019***		*2018*
Operating Activities				
Net income	**$**	**2,961**	$	2,819
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation		**1,100**		1,089
Deferred and other income taxes		**209**		204
Other operating activities, net		**41**		303
Changes in current assets and liabilities:				
Accounts receivable, net		**(54)**		(141)
Materials and supplies		**(33)**		(23)
Other current assets		**(85)**		(107)
Accounts payable and other current liabilities		**(185)**		(255)
Income and other taxes		**(54)**		144
Cash provided by operating activities		**3,900**		4,033
Investing Activities				
Capital investments		**(1,560)**		(1,614)
Maturities of short-term investments (Note 13)		**105**		60
Purchases of short-term investments (Note 13)		**(100)**		(60)
Proceeds from asset sales		**30**		31
Other investing activities, net		**(85)**		(42)
Cash used in investing activities		**(1,610)**		(1,625)
Financing Activities				
Common share repurchases (Note 18)		**(3,629)**		(5,973)
Debt issued (Note 14)		**2,992**		6,892
Dividends paid		**(1,248)**		(1,125)

Debt repaid		**(604)**		(1,295)
Accelerated share repurchase programs pending final settlement		**(500)**		(720)
Net issuance of commercial paper (Note 14)		**471**		196
Other financing activities, net		**(29)**		(54)
Cash used in financing activities		**(2,547)**		(2,079)
Net change in cash, cash equivalents and restricted cash		**(257)**		329
Cash, cash equivalents, and restricted cash at beginning of year		**1,328**		1,275
Cash, cash equivalents, and restricted cash at end of period	**$**	**1,071**	$	1,604
Supplemental Cash Flow Information				
Non-cash investing and financing activities:				
Capital investments accrued but not yet paid	**$**	**136**	$	141
Capital lease financings		**-**		12
Common shares repurchased but not yet paid		**19**		-
Cash (paid for)/received from:				
Income taxes, net of refunds	**$**	**(717)**	$	(474)
Interest, net of amounts capitalized		**(504)**		(361)
Reconciliation of cash, cash equivalents, and restricted cash				
to the Condensed Consolidated Statement of Financial Position:				
Cash and cash equivalents	**$**	**1,049**	$	1,604
Restricted cash equivalents in other current assets		**10**		-
Restricted cash equivalents in other assets		**12**		-
Total cash, cash equivalents and restricted cash equivalents per above	**$**	**1,071**	$	1,604

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

Millions	*Common Shares*	*Treasury Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*Treasury Stock*	*AOCI [a]*	*Total*
Balance at April 1, 2018	1,111.8	(339.3)	$ 2,779	$ 4,473	$ 42,359	$ (23,800)	$ (1,422)	$ 24,389
Net income			-	-	1,509	-	-	1,509
Other comprehensive loss			-	-	-	-	(6)	(6)
Conversion, stock option exercises, forfeitures, and other	-	0.2	-	25	-	12	-	37
Share repurchase programs (Note 18)	-	(33.2)	-	(720)	-	(4,743)	-	(5,463)
Cash dividends declared ($0.73 per share)	-	-	-	-	(557)	-	-	(557)
Balance at June 30, 2018	1,111.8	(372.3)	$ 2,779	$ 3,778	$ 43,311	$ (28,531)	$ (1,428)	$ 19,909
Balance at April 1, 2019	1,112.0	(403.6)	$ 2,780	$ 3,929	$ 46,049	$ (33,638)	$ (1,378)	$ 17,742
Net income			-	-	1,570	-	-	1,570
Other comprehensive income			-	-	-	-	80	80
Conversion, stock option exercises, forfeitures, and other	-	0.3	-	25	-	15	-	40
Share repurchase programs (Note 18)	-	(3.8)	-	-	-	(639)	-	(639)
Cash dividends declared ($0.88 per share)	-	-	-	-	(622)	-	-	(622)
Balance at June 30, 2019	**1,112.0**	**(407.1)**	**$ 2,780**	**$ 3,954**	**$ 46,997**	**$ (34,262)**	**$ (1,298)**	**$ 18,171**

Millions	*Common Shares*	*Treasury Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*Treasury Stock*	*AOCI [a]*	*Total*
Balance at January 1, 2018	1,111.4	(330.5)	$ 2,778	$ 4,476	$ 41,317	$ (22,574)	$ (1,141)	$ 24,856
Net income			-	-	2,819	-	-	2,819
Other comprehensive income			-	-	-	-	13	13
Conversion, stock option exercises, forfeitures, and other	0.4	0.7	1	22	-	16	-	39
Share repurchase programs (Note 18)	-	(42.5)	-	(720)	-	(5,973)	-	(6,693)
Cash dividends declared ($1.46 per share)	-	-	-	-	(1,125)	-	-	(1,125)
Reclassification due to ASU 2018-02 adoption	-	-	-	-	300	-	(300)	-
Balance at June 30, 2018	1,111.8	(372.3)	$ 2,779	$ 3,778	$ 43,311	$ (28,531)	$ (1,428)	$ 19,909
Balance at January 1, 2019	1,111.7	(386.6)	$ 2,779	$ 4,449	$ 45,284	$ (30,674)	$ (1,415)	$ 20,423
Net income			-	-	2,961	-	-	2,961

Other comprehensive income			-	-	-	-	117	117
Conversion, stock option exercises, forfeitures, and other	0.3	1.4	1	5	-	60	-	66
Share repurchase programs (Note 18)	-	(21.9)	-	(500)	-	(3,648)	-	(4,148)
Cash dividends declared ($1.76 per share)	-	-	-	-	(1,248)	-	-	(1,248)
Balance at June 30, 2019	**1,112.0**	**(407.1)**	**$ 2,780**	**$ 3,954**	**$ 46,997**	**$ (34,262)**	**$ (1,298)**	**$ 18,171**

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (Note 9)
The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

Table of Contents

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. Basis of Presentation

Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, this Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2018 Annual Report on Form 10-K. Our Consolidated Statement of Financial Position at December 31, 2018, is derived from audited financial statements. The results of operations for the six months ended June 30, 2019, are not necessarily indicative of the results for the entire year ending December 31, 2019.

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

2. Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. We implemented an enterprise-wide lease management system to support the new reporting requirements, and effective January 1, 2019, we adopted ASU No. 2016-02, *Leases (Topic 842)*. We elected an initial application date of January 1, 2019 and will not recast comparative periods in transition to the new standard. In addition, we elected certain practical expedients which permit us to not reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease and nonlease components for all classes of underlying assets. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. Adoption of the new standard resulted in an increase in the Company’s assets and liabilities of approximately $2 billion. The ASU did not have an impact on our consolidated results of operations or cash flows.

3. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although we provide and analyze revenue by commodity group, we treat the financial results of the Railroad as one segment due to the integrated nature of our rail network. Our operating revenues are primarily derived from contracts with customers for the transportation of freight from origin to destination.

Table of Contents

The following table represents a disaggregation of our freight and other revenues:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2019***	*2018*	***2019***	*2018*
Agricultural Products	**$ 1,155**	$ 1,114	**$ 2,222**	$ 2,212
Energy	**966**	1,111	**1,948**	2,284
Industrial	**1,494**	1,437	**2,904**	2,777
Premium	**1,621**	1,655	**3,172**	3,166
Total freight revenues	**$ 5,236**	$ 5,317	**$ 10,246**	$ 10,439
Other subsidiary revenues	**219**	211	**442**	428

Accessorial revenues	**123**	126	**256**	247
Other	**18**	18	**36**	33
Total operating revenues	**$ 5,596**	$ 5,672	**$ 10,980**	$ 11,147

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origin or destination for some products we transport are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are freight revenues from our Mexico business which amounted to $603 million and $635 million, respectively, for the three months ended June 30, 2019, and June 30, 2018, and $1,179 million and $1,214 million, respectively for the six months ended June 30, 2019, and June 30, 2018.

4. Stock-Based Compensation

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

Information regarding stock-based compensation appears in the table below:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2019***	*2018*	***2019***	*2018*
Stock-based compensation, before tax:				
Stock options	**$ 4**	$ 4	**$ 9**	$ 8
Retention awards	**20**	22	**42**	43
Total stock-based compensation, before tax	**$ 24**	$ 26	**$ 51**	$ 51
Excess tax benefits from equity compensation plans	**$ 6**	$ 4	**$ 45**	$ 19

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	***2019***	*2018*
Risk-free interest rate	**2.5%**	2.6%
Dividend yield	**2.2%**	2.3%
Expected life (years)	**5.2**	5.3
Volatility	**22.7%**	21.1%
Weighted-average grant-date fair value of options granted	**$ 30.37**	$ 21.70

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant; the expected 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 expected 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 six months ended June 30, 2019, is presented below:

	Options (thous.)	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Term*	*Aggregate Intrinsic Value (millions)*
Outstanding at January 1, 2019	5,170	$ 92.06	5.4 yrs.	$ 239
Granted	573	160.84	N/A	N/A
Exercised	(1,784)	71.09	N/A	N/A
Forfeited or expired	(108)	120.36	N/A	N/A
Outstanding at June 30, 2019	3,851	$ 111.21	6.4 yrs.	$ 223
Vested or expected to vest at June 30, 2019	3,813	$ 110.93	6.4 yrs.	$ 222
Options exercisable at June 30, 2019	2,579	$ 98.53	5.3 yrs.	$ 182

Stock options are granted at the closing price on the date of grant, have 10 year contractual terms, and vest no later than 3 years from the date of grant. None of the stock options outstanding at June 30, 2019, are subject to performance or market-based vesting conditions.

At June 30, 2019, there was $24 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.4 years. Additional information regarding stock option exercises appears in the table below:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2019***	*2018*	***2019***	*2018*
Intrinsic value of stock options exercised	**$ 26**	$ 14	**$ 164**	$ 47
Cash received from option exercises	**26**	19	**98**	45
Treasury shares repurchased for employee taxes	**(7)**	(5)	**(29)**	(13)
Tax benefit realized from option exercises	**6**	4	**40**	12
Aggregate grant-date fair value of stock options vested	**-**	-	**15**	18

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 six months ended June 30, 2019, were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2019	2,070	$ 104.55
Granted	379	161.68
Vested	(427)	120.50
Forfeited	(67)	108.97
Nonvested at June 30, 2019	1,955	$ 111.99

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to 4 years. At June 30, 2019, there was $119 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.9 years.

Performance Retention Awards – In February 2019, our Board of Directors approved performance stock unit grants. The basic terms of these performance stock units are identical to those granted in February 2018, except for different annual return on invested capital (ROIC) performance targets. The plan also includes relative operating income growth (OIG) as a modifier compared to the companies included in the S&P 500 Industrials Index. 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. The modifier can be up to +/- 25% of the award earned based on the ROIC achieved, but not to exceed the maximum number of shares granted.

Table of Contents

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, modified for the relative OIG. 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, and with respect to the third year of the plan, the relative OIG modifier. 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 2019 grant were as follows:

	2019
Dividend per share per quarter	$ 0.88
Risk-free interest rate at date of grant	2.5%

Changes in our performance retention awards during the six months ended June 30, 2019, were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2019	1,092	$ 95.12
Granted	324	151.24
Vested	(269)	70.79
Unearned	(127)	70.09
Forfeited	(75)	110.91
Nonvested at June 30, 2019	945	$ 123.40

At June 30, 2019, there was $35 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.3 years. This expense is subject to achievement of the performance measures established for the performance stock unit grants.

5. Retirement Plans

Pension and Other Postretirement Benefits

Pension Plans – We provide defined benefit retirement income to eligible non-union employees through qualified and non-qualified (supplemental) pension plans. Qualified and non-qualified pension benefits are based on years of service and the highest compensation during the latest years of employment, with specific reductions made for early retirements. Non-union employees hired on or after January 1, 2018 are no longer eligible for pension benefits, but are eligible for an enhanced 401(k) plan.

Other Postretirement Benefits (OPEB) – We provide medical and life insurance benefits for eligible retirees hired before January 1, 2004. 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 5 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 cost were as follows:

Millions	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Service cost	**$ 22**	$ 26	**$ 44**	$ 53
Interest cost	**40**	36	**80**	72
Expected return on plan assets	**(68)**	(68)	**(136)**	(136)
Amortization of actuarial loss	**16**	22	**32**	45
Net periodic pension cost	**$ 10**	$ 16	**$ 20**	$ 34

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

Millions	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Service cost	**$ 1**	$ 1	**$ 1**	$ 1
Interest cost	**2**	2	**5**	5
Amortization of:				
Prior service cost	**-**	1	**-**	1
Actuarial loss	**2**	3	**3**	5
Net periodic OPEB cost	**$ 5**	$ 7	**$ 9**	$ 12

On June 30, 2019, the OPEB plan was remeasured to reflect an announced plan amendment effective January 1, 2020 that reduced and eliminated certain medical benefits for Medicare-eligible retirees. This negative plan amendment resulted in a reduction in the accumulated postretirement benefit obligation of approximately $92 million with a corresponding adjustment of $69 million in other comprehensive income, net of $23 million in deferred taxes. This amount is expected to be amortized into future net periodic OPEB cost over approximately 8 years, which represents the future remaining service period of eligible employees and is expected to reduce the 2019 costs by approximately $10 million.

Cash Contributions

For the six months ended June 30, 2019, cash contributions totaled $0 to the qualified pension plan. Any contributions made during 2019 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 June 30, 2019, we do not have minimum cash funding requirements for 2019.

6. Other Income

Other income included the following:

Millions	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Rental income	**$ 33**	$ 30	**$ 62**	$ 58
Net periodic pension and OPEB costs	**8**	4	**16**	8
Interest income	**6**	5	**15**	9
Net gain on non-operating asset dispositions	**6**	7	**10**	13
Early extinguishment of debt [a]	**-**	-	**-**	(85)
Non-operating environmental costs and other [b]	**4**	(4)	**31**	(3)
Total	**$ 57**	$ 42	**$ 134**	$ -

[a] 2018 includes a debt extinguishment charge for the early redemption of certain bonds and debentures in the first quarter (Note 14).
[b] 2019 includes $30 million in interest income associated with the employment tax refund (Note 17).

7. Income Taxes

In the second quarter of 2019, UPC signed final Revenue Agent Reports (RARs) from the Internal Revenue Service (IRS) for the limited scope audits of UPC's 2016 and 2017 tax returns. The statute of limitations has run for all years prior to 2015. As a result of the signed RARs, UPC will pay the IRS $11 million in the third quarter, consisting of $10 million of tax and $1 million of interest. The settlement of the 2016 and 2017 tax years resulted in a reduction to our unrecognized tax benefit liability that was offset by additional accruals for state unrecognized tax benefits. Several state tax authorities are examining our state tax returns for years 2015 through 2017. At June 30, 2019, we had a net liability for unrecognized tax benefits of $144 million.

On April 9, 2019, Arkansas enacted legislation to decrease its corporate income tax rate effective 2021. In the second quarter of 2019, we decreased our deferred tax expense by $21 million to reflect the decreased state tax rate.

8. Earnings Per Share

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

Millions, Except Per Share Amounts	*Three Months Ended June 30,* **2019**	*Three Months Ended June 30,* 2018	*Six Months Ended June 30,* **2019**	*Six Months Ended June 30,* 2018
Net income	**$ 1,570**	$ 1,509	**$ 2,961**	$ 2,819
Weighted-average number of shares outstanding:				
Basic	**705.5**	760.5	**711.2**	768.4
Dilutive effect of stock options	**1.3**	1.8	**1.3**	1.8
Dilutive effect of retention shares and units	**1.2**	1.4	**1.3**	1.4
Diluted	**708.0**	763.7	**713.8**	771.6
Earnings per share – basic	**$ 2.23**	$ 1.98	**$ 4.16**	$ 3.67
Earnings per share – diluted	**$ 2.22**	$ 1.98	**$ 4.15**	$ 3.65
Stock options excluded as their inclusion would be anti-dilutive	**0.6**	0.8	**0.5**	0.7

Table of Contents

9. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three and six months ended June 30, 2019, and 2018, were as follows (net of tax):

Millions	*Defined benefit plans*	*Foreign currency translation*	*Total*
Balance at April 1, 2019	$ (1,182)	$ (196)	$ (1,378)
Other comprehensive income/(loss) before reclassifications	(22)	(2)	(24)
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	12	-	12
OPEB Plan amendment (Note 5)	92	-	92
Net quarter-to-date other comprehensive income/(loss), net of taxes of $(27) million	82	(2)	80
Balance at June 30, 2019	$ (1,100)	$ (198)	$ (1,298)
Balance at April 1, 2018	$ (1,235)	$ (187)	$ (1,422)
Other comprehensive income/(loss) before reclassifications	(1)	(24)	(25)
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	19	-	19
Net quarter-to-date other comprehensive income/(loss), net of taxes of $(7) million	18	(24)	(6)
Balance at June 30, 2018	$ (1,217)	$ (211)	$ (1,428)

Millions	*Defined benefit plans*	*Foreign currency translation*	*Total*
Balance at January 1, 2019	$ (1,192)	$ (223)	$ (1,415)
Other comprehensive income/(loss) before reclassifications	(25)	25	-
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	25	-	25
OPEB Plan amendment (Note 5)	92	-	92
Net year-to-date other comprehensive income/(loss), net of taxes of $(31) million	92	25	117
Balance at June 30, 2019	$ (1,100)	$ (198)	$ (1,298)
Balance at January 1, 2018	$ (1,029)	$ (112)	$ (1,141)
Other comprehensive income/(loss) before reclassifications	(1)	(24)	(25)
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	38	-	38
Net year-to-date other comprehensive income/(loss), net of taxes of $(13) million	37	(24)	13
Reclassification due to ASU 2018-02 adoption [b]	(225)	(75)	(300)
Balance at June 30, 2018	$ (1,217)	$ (211)	$ (1,428)

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

[b] ASU 2018-02 is the Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows entities the option to reclassify from accumulated other comprehensive income to retained earnings the income tax effects that remain stranded in AOCI resulting from the application of the Tax Cuts and Jobs Act.

Table of Contents

10. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, credit worthiness of customers, and current economic conditions. At June 30, 2019, and December 31, 2018, our accounts receivable were reduced by $2 million and $3 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At June 30, 2019, and December 31, 2018, receivables classified as other assets were reduced by allowances of $31 million and $27 million, respectively.

Receivables Securitization Facility – The Railroad maintains a $650 million, 3-year receivables securitization facility (the Receivables Facility) maturing in July 2019, with the intent to renew under comparable terms and conditions. Under the Receivables Facility, the Railroad sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a consolidated, wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse, an undivided interest in accounts receivable to investors. The investors have no recourse to the Railroad's other assets except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

The amount recorded under the Receivables Facility was $400 million at both June 30, 2019, and December 31, 2018. The Receivables Facility was supported by $1.4 billion of accounts receivable as collateral at both June 30, 2019, and December 31, 2018, 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 Receivables Facility, with a maximum of $650 million, may fluctuate based on the availability of eligible receivables and is directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the Receivables Facility would not materially change.

The costs of the Receivables Facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the Receivables Facility are included in interest expense and were $3 million and $4 million for the three months ended June 30, 2019, and 2018, respectively, and $7 million and $8 million for the six months ended June 30, 2019, and 2018, respectively.

Table of Contents

11. Properties

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

Millions, Except Estimated Useful Life *As of June 30, 2019*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
Land	$ 5,269	$ N/A	$ 5,269	N/A
Road:				
Rail and other track material	16,953	6,268	10,685	42
Ties	10,568	3,126	7,442	34
Ballast	5,643	1,636	4,007	34
Other roadway [a]	19,837	3,915	15,922	48
Total road	53,001	14,945	38,056	N/A
Equipment:				
Locomotives	9,679	3,770	5,909	18
Freight cars	2,172	883	1,289	24
Work equipment and other	1,065	309	756	18
Total equipment	12,916	4,962	7,954	N/A
Technology and other	1,165	509	656	12
Construction in progress	1,180	-	1,180	N/A
Total	$ 73,531	$ 20,416	$ 53,115	N/A

Millions, Except Estimated Useful Life *As of December 31, 2018*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
Land	$ 5,264	$ N/A	$ 5,264	N/A
Road:				
Rail and other track material	16,785	6,156	10,629	43
Ties	10,409	3,025	7,384	34
Ballast	5,561	1,595	3,966	34

Other roadway [a]	19,584	3,766	15,818	48
Total road	52,339	14,542	37,797	N/A
Equipment:				
Locomotives	9,792	3,861	5,931	19
Freight cars	2,229	929	1,300	24
Work equipment and other	1,040	301	739	19
Total equipment	13,061	5,091	7,970	N/A
Technology and other	1,117	493	624	12
Construction in progress	1,024	-	1,024	N/A
Total	$ 72,805	$ 20,126	$ 52,679	N/A

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

Table of Contents

12. Accounts Payable and Other Current Liabilities

Millions	***Jun. 30, 2019***	*Dec. 31, 2018*
Accounts payable	**$ 746**	$ 872
Income and other taxes payable	**644**	694
Current operating lease liabilities (Note 16)	**442**	-
Accrued wages and vacation	**371**	384
Interest payable	**299**	317
Accrued casualty costs	**210**	211
Equipment rents payable	**107**	107
Other	**549**	575
Total accounts payable and other current liabilities	**$ 3,368**	$ 3,160

13. Financial Instruments

Short-Term Investments – All of the Company's short-term investments consist of time deposits. These investments are considered level 2 investments and are valued at amortized cost, which approximates fair value. As of June 30, 2019, the Company had $85 million of short-term investments, of which $25 million are in a trust for the purpose of providing collateral for payment of certain other long-term liabilities, and as such are reclassified as other assets. All short-term investments have a maturity of less than one year and are classified as held-to-maturity. There were no transfers out of Level 2 during the six months ended June 30, 2019.

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 June 30, 2019, the fair value of total debt was $27.0 billion, approximately $1.7 billion more than the carrying value. At December 31, 2018, the fair value of total debt was $21.9 billion, approximately $0.5 billion less than the carrying value. The fair value of the Corporation's debt is a measure of its current value under present market conditions. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

14. Debt

Credit Facilities – At June 30, 2019, we had $2.0 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. Credit facility withdrawals totaled $0 during the six months ended June 30, 2019. Commitment fees and interest rates payable under the Facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The Facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The Facility matures on June 8, 2023 under a 5 year term and requires UPC to maintain a debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) coverage ratio.

The definition of debt used for purposes of calculating the debt-to-EBITDA coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees, unfunded and vested pension benefits under Title IV of ERISA, and unamortized debt discount and deferred debt issuance costs. At June 30, 2019, the Company was in compliance with the debt-to-EBITDA coverage ratio, which allows us to carry up to $38.9 billion of debt (as defined in the Facility), and we had $26.1 billion of debt (as defined in the Facility) outstanding at that date. 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 $150 million cross-default provision and a change-of-control provision.

During the six months ended June 30, 2019, we issued $6.5 billion and repaid $6.0 billion of commercial paper with maturities ranging from 1 to 32 days, and at June 30, 2019, we had $675 million of commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and,

Table of Contents

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 – In 2018, the Board of Directors reauthorized the issuance of up to $6 billion of debt securities. Under our Shelf registration, we may issue, from time to time any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings.

During the six months ended June 30, 2019, we issued the following unsecured, fixed-rate debt securities under our current shelf registration**:**

Date	*Description of Securities*
February 19, 2019	$500 million of 2.950% Notes due March 1, 2022
	$500 million of 3.150% Notes due March 1, 2024
	$1.0 billion of 3.700% Notes due March 1, 2029
	$1.0 billion of 4.300% Notes due March 1, 2049

We used the net proceeds from this offering for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase programs. These debt securities include change-of-control provisions. At June 30, 2019, we had remaining authority to issue up to $3.0 billion of debt securities under our Shelf registration.

Receivables Securitization Facility – As of both June 30, 2019, and December 31, 2018, we recorded $400 million of borrowings under our Receivables Facility as secured debt. (See further discussion of our receivables securitization facility in Note 10).

Debt Redemption – Effective as of March 15, 2018, we redeemed, in entirety, the Missouri Pacific 5% Income Debentures due January 1, 2045, the Chicago and Eastern Illinois 5% Income Debentures due January 1, 2054, and the Missouri Pacific 4.75% General Mortgage Income Bonds Series A due January 1, 2020 and Series B due January 1, 2030. The debentures had principal outstanding of $96 million and $2 million, respectively, and the bonds had principal outstanding of $30 million and $27 million, respectively. The bonds and debentures were assumed by the Railroad in the 1982 acquisition of the Missouri Pacific Railroad Company, with a weighted average interest rate of 4.9%. The carrying value of all four bonds and debentures at the time of redemption was $70 million, due to fair value purchase accounting adjustments related to the acquisition. The redemption resulted in an early extinguishment charge of $85 million in the first quarter of 2018.

15. Variable Interest Entities

We have entered into various lease transactions in which the structure of the leases contain variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions (principally involving railroad equipment and facilities) and have no other activities, assets or liabilities outside of the lease transactions. Within these lease arrangements, we have the right to purchase some or all of the assets at fixed prices. Depending on market conditions, fixed-price purchase options available in the leases could potentially provide benefits to us; however, these benefits are not expected to be significant.

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

We are not considered to be the primary beneficiary and do not consolidate these VIEs because our actions and decisions do not have the most significant effect on the VIE's performance and our fixed-price purchase options are not considered to be potentially significant to the VIEs. The future minimum lease payments associated with the VIE leases totaled $1.5 billion as of June 30, 2019.

16. Leases

Our significant accounting policies are detailed in Note 2 of our Annual Report on Form 10-K for the year ended December 31, 2018. Changes to our accounting policies as a result of adopting ASU 2016-02 are discussed below.

We lease certain locomotives, freight cars, and other property for use in our rail operations. We determine if an arrangement is or contains a lease at inception. We have lease agreements with lease and non-lease components and we have elected to not separate lease and non-lease components for all classes of underlying assets. Leases with an initial term of 12 months or less are not recorded on our Consolidated Statements of Financial Position; we recognize lease expense for these leases on a straight-line basis over the lease term. Leases with initial terms in excess of 12 months are recorded as operating or financing leases in our Consolidated Statement of Financial Position. Operating leases are included in operating lease assets, accounts payable and other current liabilities, and operating lease liabilities on our Consolidated Statements of Financial Position. Finance leases are included in net properties, debt due within one year, and debt due after one year on our Consolidated Statements of Financial Position.

Operating lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use a collateralized incremental borrowing rate based on the information available at commencement date, including lease term, in determining the present value of future payments. The operating lease asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Operating lease expense is recognized on a straight-line basis over the lease term and reported in equipment and other rents and financing lease expense is recorded as depreciation and interest expense in our Consolidated Statements of Income.

The following are additional details related to our lease portfolio:

Millions	*Classification*		*Jun. 30, 2019*
Assets			
Operating leases	Operating lease assets	$	2,076
Finance leases	Net properties [a]		502
Total leased assets		$	2,578
Liabilities			
Current			
Operating	Accounts payable and other current liabilities	$	442
Finance	Debt due within one year		112

Noncurrent		
Operating	Operating lease liabilities	1,612
Finance	Debt due after one year	539
Total lease liabilities		$ 2,705

[a] Finance lease assets are recorded net of accumulated amortization of $762 million as of June 30, 2019.

The lease cost components are classified as follows:

Millions	*Classification*	*Three Months Ended June 30, 2019*	*Six Months Ended June 30, 2019*
Operating lease cost [a]	Equipment and other rents	$ 85	$ 178
Finance lease cost			
Amortization of leased assets	Depreciation	18	36
Interest on lease liabilities	Interest expense	8	17
Net lease cost		$ 111	$ 231

[a] Includes short-term lease costs of $0.2 million and $0.4 million for the three and six months ended June 30, and variable lease costs of $2.1 million and $4.0 million for the three and six months ended June 30.

Table of Contents

The following table presents aggregate lease maturities as of June 30, 2019:

Millions	*Operating Leases*	*Finance Leases*	*Total*
2019	$ 166	$ 62	$ 228
2020	380	143	523
2021	306	147	453
2022	273	130	403
2023	234	88	322
After 2023	1,028	199	1,227
Total lease payments	$ 2,387	$ 769	$ 3,156
Less: Interest	333	118	451
Present value of lease liabilities	$ 2,054	$ 651	$ 2,705

The Consolidated Statement of Financial Position as of December 31, 2018 included $1,454, net of $912 million of accumulated depreciation for properties held under capital leases. The following table presents aggregate lease maturities as of December 31, 2018:

Millions	*Operating Leases*	*Capital Leases*
2019	$ 419	$ 148
2020	378	155
2021	303	159
2022	272	142
2023	234	94
Later years	1,040	200
Total minimum lease payments	$ 2,646	$ 898
Amount representing interest	N/A	(144)
Present value of minimum lease payments	N/A	$ 754

The following table presents the weighted average remaining lease term and discount rate:

	Jun. 30, 2019
Weighted-average remaining lease term (years)	
Operating leases	8.9
Finance leases	6.4
Weighted-average discount rate	
Operating leases	3.7
Finance leases	5.3

The following table presents other information related to our operating and finance leases:

Millions, for the Six Months Ended June 30,	*2019*
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 255
Operating cash flows from finance leases	20
Financing cash flows from finance leases	79

Leased assets obtained in exchange for finance lease liabilities	-
Leased assets obtained in exchange for operating lease liabilities	27

Table of Contents

17. Commitments and Contingencies

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

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

Our personal injury liability is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 94% of the recorded liability is related to asserted claims and approximately 6% is related to unasserted claims at June 30, 2019. 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 $265 million to $290 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

Millions, for the Six Months Ended June 30,		***2019***		*2018*
Beginning balance	**$**	**271**	$	285
Current year accruals		**36**		35
Changes in estimates for prior years		**(11)**		(17)
Payments		**(31)**		(34)
Ending balance at June 30	**$**	**265**	$	269
Current portion, ending balance at June 30	**$**	**63**	$	68

We reassess our estimated insurance recoveries annually and have recognized an asset for estimated insurance recoveries at both June 30, 2019, and December 31, 2018. Any changes to recorded insurance recoveries are included in the above table in the Changes in estimates for prior years category.

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have identified 345 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 32 sites that are the subject of actions taken by the U.S. government, 21 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

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

Table of Contents

Our environmental liability activity was as follows:

Millions, for the Six Months Ended June 30,		***2019***		*2018*
Beginning balance	**$**	**223**	$	196
Accruals		**32**		36
Payments		**(35)**		(26)
Ending balance at June 30	**$**	**220**	$	206
Current portion, ending balance at June 30	**$**	**63**	$	59

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. We record both liabilities and reinsurance receivables using an actuarial analysis based on historical experience in our Condensed Consolidated Statements of Financial Position. Effective January 2019, the captive insurance subsidiary no longer participates in the reinsurance treaty agreement. The Company established a trust in the fourth quarter of 2018 for the purpose of providing collateral as required under the reinsurance treaty agreement for prior years' participation.

Guarantees – At both June 30, 2019 and December 31, 2018, we were contingently liable for $22 million in guarantees. The fair value of these obligations as of both June 30, 2019, and December 31, 2018 was $0. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

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

Gain Contingency – UPRR filed multiple claims with the IRS for refunds of Railroad Retirement Taxes paid on (i) certain stock awards to its employees and (ii) certain bonus payments it made to labor agreement employees during the years 1991-2017. The IRS denied UPRR's claims for 1991 – 2007 (employment tax refund). UPRR filed suit in the U.S. District Court for the District of Nebraska (the District Court) for the employment tax refund and in 2016 the District Court denied the refund claim. UPRR appealed this denial to the U.S. Court of Appeals for the 8th Circuit (8th Circuit) and the 8th Circuit ruled in favor of UPRR and remanded the case to the District Court. The IRS appealed the 8th Circuit ruling to the U.S. Supreme Court.

In June 2018, a similar case for another railroad was decided by the U.S. Supreme Court against the IRS and in favor of that railroad (Wisconsin Central LTD., Et. Al. v. U.S.). As a result, the U.S. Supreme Court denied the IRS request to appeal the 8th Circuit ruling. On November 28, 2018 the District Court issued an order granting summary judgment to UPRR pursuant to the mandate of the 8th Circuit. UPRR, the Department of Justice (DOJ), and the IRS subsequently agreed upon the tax refund amounts owed UPRR and its employees for all claims. On February 12, 2019, UPRR received a partial final judgment from the District Court for the employment tax refund. As a result, in the first quarter of 2019 UPRR recognized an employer refund of $42 million as a reduction of compensation and benefit expenses and approximately $27 million of interest in other income.

On June 6, 2019, UPRR signed final Revenue Agent's Reports for its refund claims for 2008 – 2012 and 2014 – 2017. These claims are now complete and as a result, in the second quarter of 2019 UPRR recognized an employer refund of $32 million as a reduction of compensation and benefit expenses and approximately $3 million of interest in other income. The remaining refund claim for 2013 requires a legal closing agreement which we anticipate will be signed in the third quarter. The 2013 claim is immaterial to UPC's condensed consolidated statements of income, financial position and cash flow.

18. Share Repurchase Programs

Effective April 1, 2019, our Board of Directors authorized the repurchase of up to 150 million shares of our common stock by March 31, 2022, replacing our previous repurchase program. 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. As of June 30, 2019, we repurchased a total of $35.0 billion of our common stock since commencement of our repurchase programs in 2007. The following table represents shares repurchased in the first and second quarters of 2019 and 2018:

	Number of Shares Purchased		*Average Price Paid*	
	2019	*2018*	***2019***	*2018*
First quarter [a]	**18,149,450**	9,259,004	**$ 165.79**	$ 132.84
Second quarter [b]	**3,732,974**	33,229,992	**171.24**	142.74
Total	**21,882,424**	42,488,996	**$ 166.72**	$ 140.58
Remaining number of shares that may be repurchased under current authority				146,267,026

[a] Includes 11,795,930 shares repurchased in February 2019 under accelerated share repurchase programs.
[b] Includes 19,870,292 shares repurchased in June 2018 under accelerated share repurchase programs.

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. Open market repurchases are recorded in treasury stock at cost, which includes any applicable commissions and fees.

Accelerated Share Repurchase Programs – The Company has established accelerated share repurchase programs (ASRs) with financial institutions to repurchase shares of our common stock. These ASRs have been structured so that at the time of commencement, we pay a specified amount to the financial institutions and receive an initial delivery of shares. Additional shares may be received at the time of settlement. The final number of shares to be received is based on the volume weighted average price of the Company's common stock during the ASR term, less a discount and subject to potential adjustments pursuant to the terms of such ASR.

On February 26, 2019, the Company received 11,795,930 shares of its common stock repurchased under ASRs for an aggregate of $2.5 billion. When the shares were received, the exchange was accounted for as an equity transaction with $2.0 billion of the aggregate amount allocated to treasury stock and the remaining $0.5 billion allocated to paid-in-surplus. This delivery of shares represents the initial and likely minimum number of shares that we may receive under the ASRs initiated in 2019. The final settlement is expected to be completed prior to the end of the third quarter of 2019.

On June 15, 2018, the Company received 19,870,292 shares of its common stock repurchased under ASRs for an aggregate of $3.6 billion. Upon settlement of these ASRs in the fourth quarter of 2018, we received 4,457,356 additional shares.

ASRs are accounted for as equity transactions, and at the time of receipt, shares are included in treasury stock at fair market value as of the corresponding initiation or settlement date. The Company reflects shares received as a repurchase of common stock in the weighted average common shares outstanding calculation for basic and diluted earnings per share.

19. Related Parties

UPRR and other North American railroad companies jointly own TTX Company (TTX). UPRR has a 36.79% economic and voting interest in TTX while the other North American railroads own the remaining interest. In accordance with ASC 323 *Investments - Equity Method and Joint Venture*, UPRR applies the equity method of accounting to our investment in TTX.

TTX is a railcar pooling company that owns railcars and intermodal wells to serve North America's railroads. TTX assists railroads in meeting the needs of their customers by providing railcars in an efficient, pooled environment. All railroads have the ability to utilize TTX railcars through car hire by renting railcars at stated rates.

UPRR had $1.3 billion recognized as investments related to TTX in our Condensed Consolidated Statements of Financial Position as of both June 30, 2019, and December 31, 2018. TTX car hire expenses of $108 million and $110 million for the three months ended June 30, 2019, and 2018, respectively, and $215 million and $217 million for the six months ended June 30, 2019, and 2018, respectively, are included in equipment and other rents in our Condensed Consolidated Statements of Income. In addition, UPRR had accounts payable to TTX of $73 million and $66 million as of June 30, 2019, and December 31, 2018, respectively.

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES
RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2019, Compared to
Three and Six Months Ended June 30, 2018

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

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

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

Available Information

Our Internet website is www.up.com. We make available free of charge on our website (under the "Investors" caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to any such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC's Internet site at www.sec.gov. We provide these previously filed reports as a convenience and their contents reflect only information that was true and correct as of the date of the report. We assume no obligation to update this historical information. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Corporate 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 2018 Annual Report on Form 10-K. Changes to our accounting policies as a result of adopting ASU 2016-02 are discussed within Note 16 of the Condensed Consolidated Financial Statements.

Table of Contents

RESULTS OF OPERATIONS

Quarterly Summary

We reported earnings of $2.22 per diluted share on net income of $1.6 billion in the second quarter of 2019 compared to earnings of $1.98 per diluted share on net income of $1.5 billion for the second quarter of 2018. Freight revenues decreased 2% in the second quarter compared to the same period in 2018 driven by a 4% volume decline partially offset by a 3% increase in average revenue per car (ARC) due to core pricing gains. Growth in shipments of petroleum products, rock, fertilizer and plastics were more than offset by declines in domestic intermodal, sand, coal, auto parts, and grain.

Unified Plan 2020, the Company's plan for operating a safe and efficient railroad by increasing the reliability of our service product, reducing variability in network operations, and improving resource utilization costs continued to progress in the second quarter. Year-over-year we saw a 19% improvement in locomotive productivity, a 4% improvement in freight car velocity and 4% improvement in work force productivity. These improvements were achieved despite dealing with widespread flooding across the midwestern and southern portions of our network. These weather events negatively impacted carload volumes across various lines of business and drove additional operating expenses in the quarter, adversely affecting earnings by approximately $0.07 per diluted share.

Productivity initiatives, volume declines, lower fuel prices and a $32 million reduction of compensation expense due to refund claims for railroad retirement taxes on certain stock awards and bonus payments (employment tax refund) drove operating expenses down 7% from 2018. The reduction in expenses more than offset lower top line results, generating operating income growth of 8% and a 3.4 point improvement on the operating ratio.

Operating Revenues

Millions	*Three Months Ended June 30,* **2019**	*2018*	***Change***	*Six Months Ended June 30,* **2019**	*2018*	***Change***
Freight revenues	**$ 5,236**	$ 5,317	**(2) %**	**$ 10,246**	$ 10,439	**(2) %**
Other subsidiary revenues	**219**	211	**4**	**442**	428	**3**
Accessorial revenues	**123**	126	**(2)**	**256**	247	**4**
Other	**18**	18	**-**	**36**	33	**9**
Total	**$ 5,596**	$ 5,672	**(1) %**	**$ 10,980**	$ 11,147	**(1) %**

We generate freight revenues by transporting freight or other materials from our four 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 over time as shipments move from origin to destination. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred.

Other revenues consist primarily of revenues earned by our other subsidiaries (primarily logistics and commuter rail operations) and accessorial revenues. Other subsidiary revenues are generally recognized over time as shipments move from origin to destination. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred. Accessorial revenues are recognized at a point in time as performance obligations are satisfied.

Freight revenues decreased 2% during the second quarter of 2019 compared to 2018, resulting from a 4% volume decline partially offset by core pricing gains. Weather-related disruptions negatively impacted several commodities but the largest impact was on coal and domestic intermodal shipments. Fewer shipments of frac sand, grain and auto parts partially offset by growth in petroleum products, rock, fertilizer and plastics drove additional volume declines.

Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were $399 million in the second quarter of 2019 compared to $412 million in the same period of 2018. Lower fuel surcharge revenue resulted from volume declines and lower year-over-year prices.

Table of Contents

Other revenues increased in the second quarter and six-month periods of 2019 compared to 2018 due to higher revenues at our subsidiaries, partially offset by volume declines. Higher accessorial charges focused on incentivizing customers' efficient use of Company assets also contributed to the increase in the six-month period.

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

Freight Revenues *Millions*	*Three Months Ended June 30,* **2019**	*2018*	***Change***	*Six Months Ended June 30,* **2019**	*2018*	***Change***
Agricultural Products	**$ 1,155**	$ 1,114	**4 %**	**$ 2,222**	$ 2,212	**- %**
Energy	**966**	1,111	**(13)**	**1,948**	2,284	**(15)**
Industrial	**1,494**	1,437	**4**	**2,904**	2,777	**5**
Premium	**1,621**	1,655	**(2)**	**3,172**	3,166	**-**

Total	$ 5,236	$ 5,317	(2) %	$ 10,246	$ 10,439	(2) %

Revenue Carloads	*Three Months Ended June 30,*			*Six Months Ended June 30,*		
Thousands,	***2019***	*2018*	***Change***	***2019***	*2018*	***Change***
Agricultural Products	**284**	285	**- %**	**543**	564	**(4) %**
Energy	**351**	387	**(9)**	**709**	806	**(12)**
Industrial	**460**	452	**2**	**889**	863	**3**
Premium [a]	**1,042**	1,101	**(5)**	**2,083**	2,117	**(2)**
Total	**2,137**	2,225	**(4) %**	**4,224**	4,350	**(3) %**

Average Revenue per Car	*Three Months Ended June 30,*			*Six Months Ended June 30,*		
	2019	*2018*	***Change***	***2019***	*2018*	***Change***
Agricultural Products	**$ 4,057**	$ 3,903	**4 %**	**$ 4,088**	$ 3,922	**4 %**
Energy	**2,753**	2,874	**(4)**	**2,746**	2,835	**(3)**
Industrial	**3,242**	3,178	**2**	**3,266**	3,218	**1**
Premium	**1,557**	1,503	**4**	**1,523**	1,495	**2**
Average	**$ 2,450**	$ 2,389	**3 %**	**$ 2,425**	$ 2,400	**1 %**

[a] For intermodal shipments each container or trailer equals one carload.

Agricultural Products – Freight revenue from agricultural products shipments increased in the second quarter 2019 compared to 2018 due to core pricing gains and positive mix of traffic. Second quarter volume levels were essentially flat as declines in export grain and grain products were offset by fertilizer shipments compared to 2018. Freight revenues were essentially flat in the year-to-date period compared to 2018 as volume declines were offset by core pricing gains, positive mix of traffic and higher fuel surcharge revenue. Year-to-date volume declines were also impacted by weather-related challenges experienced in 2019.

Energy – Freight revenue from energy shipments decreased 13% and 15% in the second quarter and six-month periods of 2019 compared to 2018 due to declines in volume and negative mix of traffic, partially offset by core pricing gains. In the year-to-date period, higher fuel surcharge revenue also offset some of the declines compared to 2018. Frac sand shipments declined 50% in the second quarter compared to last year as regional sand supplies in the Permian basin displaced select shipments originating from the upper Midwest. In addition, coal and coke shipments declined 7% due to weather-related operational challenges, a commercial contract loss, and lower natural gas prices. Year-to-date, frac sand shipments and coal and coke shipments declined 47% and 10%, respectively, compared to 2018. Growth in petroleum shipments (both crude and refined) due to strong drilling activity partially offset the sand and coal volume declines in both periods.

Table of Contents

Industrial – Freight revenue from industrial shipments increased in the second quarter and six-month periods of 2019 compared to 2018 due to core pricing gains and volume growth partially offset by negative mix of traffic. Higher fuel surcharge revenue also contributed to the increase year-to-date compared to 2018. Volume increased 2% and 3% in the second quarter and year-to-date periods, respectively, compared to 2018 driven by strong market demand in construction products and plastics, while forest products shipments decreased due to high paper inventories, a reduction in housing starts and weather-related challenges compared to 2018.

Premium – Freight revenue from premium shipments decreased in the second quarter compared to 2018 due to volume declines partially offset by core pricing gains. Year-to-date, freight revenue was essentially flat as volume declines and negative mix of traffic were offset by core pricing gains and higher fuel surcharge revenue compared to the same period in 2018. Volume decreased 5% and 2% in the second quarter and year-to-date periods, respectively, compared to 2018 driven by declines in domestic intermodal shipments, including containerized automotive parts, due to increased truck competition and weather-related challenges. These volume declines were partially offset by growth in international intermodal mainly driven by a surge in January shipments and newly secured business.

Mexico Business – Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business decreased 5% to $603 million in the second quarter of 2019 compared to $635 million in 2018 driven by a 7% decline in volume, partially offset by core pricing gains. The decrease in volume was driven by fewer shipments of grain, coal, and automotive parts, partially offset by growth in finished vehicles and food and beverage. Year-to-date, freight revenue decreased 3% to $1,179 million as a result of fewer shipments of automotive parts, coal and grain partially offset by core pricing gains and higher fuel surcharge revenue compared to 2018.

Operating Expenses

	Three Months Ended June 30,			*Six Months Ended June 30,*		
Millions	***2019***	*2018*	***Change***	***2019***	*2018*	***Change***
Compensation and benefits	**$ 1,145**	$ 1,241	**(8) %**	**$ 2,350**	$ 2,514	**(7) %**
Purchased services and materials	**573**	630	**(9)**	**1,149**	1,229	**(7)**
Depreciation	**551**	546	**1**	**1,100**	1,089	**1**
Fuel	**560**	643	**(13)**	**1,091**	1,232	**(11)**
Equipment and other rents	**260**	265	**(2)**	**518**	531	**(2)**
Other	**247**	248	**-**	**552**	514	**7**
Total	**$ 3,336**	$ 3,573	**(7) %**	**$ 6,760**	$ 7,109	**(5) %**

Operating expenses decreased $237 million and $349 million in the second quarter and year-to-date periods, respectively, compared to 2018 driven by productivity savings, volume-related costs, lower compensation expense due to the employment tax refund (see Note 17 of the Condensed Consolidated Financial Statements), lower fuel price, and lower management and administrative wage and benefit costs. Increased costs due to inflation, higher destroyed equipment, weather-related challenges, and depreciation partially offset these decreases compared to 2018.

Compensation and Benefits – Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. For the second quarter and year-to-date periods, expenses decreased 8% and 7% compared to 2018 due to the employment tax refund and lower wage and benefit costs driven by reduced headcount. Wage inflation and increased costs due to weather-related challenges partially offset the decreases. Expense associated with the workforce reduction also partially offset the decrease in the year-to-date period.

Purchased Services and Materials – Expense for purchased services and materials includes the costs of services purchased from outside contractors and other service providers (including equipment maintenance and contract expenses incurred by our subsidiaries for external transportation services); materials used to maintain the Railroad's lines, structures, and equipment; costs of operating facilities jointly used by UPRR and other railroads; transportation and lodging for train crew employees; trucking and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Purchased services and materials decreased 9% and 7% in the second quarter and year-to-date periods, respectively,

Table of Contents

compared to 2018. Lower locomotive repair expense due to a smaller active fleet in service and lower costs for services purchased from outside contractors primarily drove the decrease in the second quarter. Conversely, higher costs associated with weather-related challenges and derailments partially offset these decreases versus 2018.

Depreciation – The majority of depreciation relates to road property, including rail, ties, ballast, and other track material. A higher depreciable asset base, reflecting recent years' higher capital spending, increased depreciation expense in the second quarter and year-to-date periods of 2019 compared to 2018.

Fuel – Fuel includes locomotive fuel and fuel for highway and non-highway vehicles and heavy equipment. A 5% improvement in fuel consumption rate, computed as gallons of fuel consumed divided by gross ton-miles in thousands, a 5% decline in gross ton-miles and lower locomotive diesel fuel prices, which averaged $2.21 per gallon (including taxes and transportation costs) in the second quarter of 2019, compared to $2.30 per gallon in the same period in 2018, drove the decrease in the second quarter compared to the same period in 2018. For the six-month period, locomotive diesel fuel prices averaged $2.14 per gallon in 2019 compared to $2.22 in 2018, decreasing expenses by 3%. In addition, gross ton-miles decreased 6% and fuel consumption rate improved 2% during the year-to-date period, also driving lower fuel expense compared to 2018.

Equipment and Other Rents – Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; and office and other rentals. Equipment and other rents expense decreased 2% in both the second quarter and year-to-date periods compared to 2018, driven by decreased car rent expense due to volume declines, improved cycle time, lower locomotive and freight car lease expenses partially offset by additional cost associated with weather-related challenges.

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 were essentially flat in the second quarter compared to 2018 driven primarily by lower costs associated with employee travel and bad debt expense mostly offset by higher destroyed equipment costs. Conversely, other expenses increased 7% in the year-to-date period compared to 2018 due to higher destroyed equipment and freight loss and damage cost partially offset by lower costs associated with employee travel.

Non-Operating Items

Millions	*Three Months Ended June 30,* **2019**	*2018*	***Change***	*Six Months Ended June 30,* **2019**	*2018*	***Change***
Other income	**$ 57**	$ 42	**36 %**	**$ 134**	$ -	**F %**
Interest expense	**(259)**	(203)	**28**	**(506)**	(389)	**30**
Income taxes	**(488)**	(429)	**14**	**(887)**	(830)	**7**

Other Income – Other income increased in the second quarter of 2019 compared to 2018 as a result of lower costs associated with our benefit plans, higher rental income, lower environmental costs associated with non-operating properties and $3 million in interest income associated with the employment tax refund in 2019. For the six-month period, other income increased due to $30 million in interest income associated with the employment tax refund in 2019, a decrease of $85 million in expense associated with early-extinguishment of outstanding debentures and mortgage bonds recognized in the first quarter of 2018 and lower costs associated with our benefit plans.

Interest Expense – Interest expense increased in the second quarter of 2019 compared to 2018 due to an increase in the weighted-average debt level of $25.1 billion in 2019 compared to $19.0 billion in 2018, partially offset by a lower effective interest rate of 4.2% in 2019 compared 4.3% in 2018. Year-to-date, interest expense increased due to an increased weighted-average debt level of $24.2 billion in 2019 from $18.1 billion in 2018. The effective interest rate was 4.3% for both year-to-date periods.

Income Taxes – Income taxes were higher in the second quarter of 2019 compared to 2018, driven by higher income. Our effective tax rates for the second quarter of 2019 and 2018 were 23.7% and 22.1%, respectively. In the second quarter of 2018, Iowa and Missouri enacted laws to reduce their corporate tax

Table of Contents

rate, which lowered our 2018 effective tax rate. In 2019, Arkansas enacted a law to reduce its corporate tax rate. This reduced our 2019 effective tax rate. The Arkansas reduction was less than the Iowa and Missouri reductions resulting in a higher effective tax rate for 2019 compared to 2018. For the six-month periods of 2019 and 2018, our effective tax rates were 23.1% and 22.7%, respectively.

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/investor/aar-stb_reports/index.htm.

Operating/Performance Statistics

Railroad performance measures are included in the table below:

	Three Months Ended June 30,				*Six Months Ended June 30,*			
	2019	*2018*	**Change**		***2019***	*2018*	**Change**	
Gross ton-miles (GTMs) (billions)	**220.0**	230.9	**(5)**	**%**	**430.3**	**457.9**	**(6)**	**%**
Revenue ton-miles (billions)	**108.7**	117.6	**(8)**		**215.4**	**235.0**	**(8)**	
Freight car velocity (daily miles per car)	**195**	188	**4**		**191**	181	**6**	
Average train speed (miles per hour) [a]	**23.1**	24.7	**(6)**		**23.2**	24.8	**(6)**	
Average terminal dwell time (hours) [a]	**25.5**	29.5	**(14)**		**26.0**	31.2	**(17)**	
Locomotive productivity (GTMs per horsepower day)	**121**	102	**19**		**116**	103	**13**	
Workforce productivity (car miles per employee)	**866**	836	**4**		**839**	831	**1**	
Employees (average)	**38,657**	42,114	**(8)**		**39,355**	41,925	**(6)**	
Operating ratio	**59.6**	63.0	**(3.4)**	**pts**	**61.6**	63.8	**(2.2)**	**pts**

[a] As reported to the AAR.

Gross and Revenue Ton-Miles – Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles and revenue ton-miles decreased 5% and 8%, respectively, during the second quarter of 2019 compared to 2018, driven by a 4% decline in carloadings. Changes in commodity mix drove the variance in year-over-year decreases between gross ton-miles, revenue ton-miles and carloads. Year-to-date, gross ton-miles and revenue ton-miles decreased 6% and 8%, respectively, compared to 2018, driven by a 3% decrease in carloadings.

Freight Car Velocity – Freight car velocity is average daily car miles per car. Drivers of this metric are the speed of the train between terminals (average train speed) and the time a rail car spends at the terminals (average terminal dwell time). Implementation of Unified Plan 2020 drove the 4% and 6% improvement for the second quarter and six-month periods of 2019, respectively. Average terminal dwell time decreased 14% and 17% during the second quarter and year-to-date periods, respectively, compared to the same period in 2018 largely due to improved processes in the terminals, transportation plan changes to eliminate switches, and a decrease in our freight car inventory levels. Conversely, weather-related disruptions did impact our average train speed, as it declined 6% for both the second quarter and six-month periods compared to 2018.

Locomotive Productivity – Locomotive productivity is gross ton-miles per average daily locomotive horsepower. Locomotive productivity increased 19% year-over-year as we reduced our active locomotive fleet by 20% since the second quarter of 2018. Year-to-date, locomotive productivity improved 13% driven by the reduced fleet size.

Workforce Productivity – Workforce productivity is average daily car miles per employee. Workforce productivity improved 4% as average daily car miles decreased 5% while employees decreased 8% compared to the second quarter of 2018. Lower carload volumes drove the decline in average daily car miles. The 8% decline in employee levels was driven by a 4% decline in carload volumes, initiatives to further right-size the workforce and a smaller capital workforce. At the end of the second quarter, approximately 2,200 employees across all crafts were either furloughed or in alternate work status. Year-to-date, workforce productivity improved 1%.

Table of Contents

Operating Ratio – Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our second quarter operating ratio of 59.6% was an all-time record and improved 3.4 points compared to 2018 mainly driven by productivity, core pricing gains, lower fuel prices, and the employment tax refund which were offset by inflation, costs associated with weather events, and other cost hurdles. Year-to-date, our operating ratio was 61.6%, improving 2.2 points compared to 2018.

Adjusted Debt / Adjusted EBITDA

Millions, Except Ratios for the Trailing Twelve Months Ended [a]		***Jun. 30, 2019***		*Dec. 31, 2018*
Net income	**$**	**6,108**	$	5,966
Less:				
Other income		**228**		94
Add:				
Income tax expense		**1,832**		1,775
Depreciation		**2,202**		2,191
Interest expense		**987**		870
EBITDA	**$**	**10,901**	$	10,708
Interest on operating lease liabilities [b]		**76**		84
Adjusted EBITDA (a)	**$**	**10,977**	$	10,792
Debt	**$**	**25,252**	$	22,391
Operating lease liabilities [c]		**2,054**		2,271
Unfunded pension and OPEB, net of taxes of $108 and $135		**359**		456
Adjusted debt (b)	**$**	**27,665**	$	25,118
Adjusted debt / Adjusted EBITDA (b/a)		**2.5**		2.3

[a] The trailing twelve month income statement information ended June 30, 2019 is recalculated by taking the twelve months ended December 31, 2018, subtracting the six months ended June 30, 2018, and adding the six months ended June 30, 2019.

[b] Represents the hypothetical interest expense we would incur (using the incremental borrowing rate) if the property under our operating leases were owned or accounted for as finance leases.

[c] Effective January 1, 2019, the Company adopted Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases. ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet. Prior to adoption, the present value of operating leases was used in this calculation.

Adjusted debt to Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and interest on operating lease liabilities) is considered a non-GAAP financial measure 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 this measure is important to management and investors in evaluating the Company's ability to sustain given debt levels (including leases) with the cash generated from operations. In addition, a comparable measure is used by rating agencies when reviewing the Company's credit rating. Adjusted debt to Adjusted EBITDA should be considered in addition to, rather than as a substitute for, net income. The table above provides reconciliations from net income to adjusted debt to adjusted EBITDA. At both June 30, 2019 and December 31, 2018, the incremental borrowing rate on operating lease liabilities was 3.7%.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

Cash Flows *Millions,* *for the Six Months Ended June 30,*		***2019***		*2018*
Cash provided by operating activities	**$**	**3,900**	$	4,033
Cash used in investing activities		**(1,610)**		(1,625)
Cash used in financing activities		**(2,547)**		(2,079)
Net change in cash, cash equivalents and restricted cash	**$**	**(257)**	$	329

Table of Contents

Operating Activities

Cash provided by operating activities decreased in the first six months of 2019 compared to the same period of 2018 due to higher interest and tax payments, partially offset by higher net income in the first six months of 2019 compared to 2018.

Investing Activities

Reduced capital investments on equipment purchases and Positive Train Control drove lower cash used in investing activities in the first six months of 2019 compared to the same period in 2018.

The table below details cash capital investments:

Millions, *for the Six Months Ended June 30,*		***2019***		*2018*
Rail and other track material	**$**	**281**	$	293
Ties		**214**		227
Ballast		**122**		102
Other [a]		**274**		209
Total road infrastructure replacements		**891**		831
Line expansion and other capacity projects		**180**		104
Commercial facilities		**55**		97
Total capacity and commercial facilities		**235**		201
Locomotives and freight cars [b]		**222**		402
Positive train control		**34**		80
Technology and other		**178**		100
Total cash capital investments	**$**	**1,560**	$	1,614

[a] Other includes bridges and tunnels, signals, other road assets, and road work equipment.
[b] Locomotives and freight cars include lease buyouts of $97 million in 2019 and $210 million in 2018.

Capital Plan

We expect our 2019 capital expenditures to be approximately $3.2 billion. Revisions may occur as we continue to evaluate the impact of Unified Plan 2020, or if business conditions or the regulatory environment affect our ability to generate sufficient returns on these investments.

Financing Activities

Cash used in financing activities increased $468 million in the first six months of 2019 compared to the same period of 2018, driven by a $2.9 billion net decrease in additional debt and $123 million increase in dividends paid, partially offset by a $2.6 billion decrease in share repurchase programs.

See Note 14 of the Condensed Consolidated Financial Statements for a description of all our outstanding financing arrangements and significant new borrowings and Note 18 of the Condensed Consolidated Financial Statements for a description of our share repurchase programs.

Free Cash Flow – Free cash flow is defined as cash provided by operating activities less cash used in investing activities and dividends paid.

Free cash flow is not considered a financial measure under 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 financing. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities.

The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure):

Millions, for the Six Months Ended June 30,	***2019***	*2018*
Cash provided by operating activities	**$ 3,900**	$ 4,033
Cash used in investing activities	**(1,610)**	(1,625)
Dividends paid	**(1,248)**	(1,125)
Free cash flow	**$ 1,042**	$ 1,283

Share Repurchase Programs

Effective April 1, 2019, our Board of Directors authorized the repurchase of up to 150 million shares of our common stock by March 31, 2022, replacing our previous repurchase program authorization of up to 120 million shares, which expired on March 31, 2019. As of June 30, 2019, we repurchased a total of $35.0 billion of our common stock since commencement of our repurchase programs in 2007. The table below represents shares repurchased in the first and second quarters of 2019 and 2018.

	Number of Shares Purchased		*Average Price Paid*	
	2019	*2018*	***2019***	*2018*
First quarter [a]	**18,149,450**	9,259,004	**$ 165.79**	$ 132.84
Second quarter [b]	**3,732,974**	33,229,992	**171.24**	142.74
Total	**21,882,424**	42,488,996	**$ 166.72**	$ 140.58
Remaining number of shares that may be repurchased under current authority				146,267,026

[a] Includes 11,795,930 shares repurchased in February 2019 under accelerated share repurchase programs.
[b] Includes 19,870,292 shares repurchased in June 2018 under accelerated share repurchase programs.

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. Open market repurchases are recorded in treasury stock at cost, which includes any applicable commissions and fees.

Accelerated Share Repurchase Programs – The Company has established accelerated share repurchase programs (ASRs) with financial institutions to repurchase shares of our common stock. These ASRs have been structured so that at the time of commencement, we pay a specified amount to the financial institutions and receive an initial delivery of shares. Additional shares may be received at the time of settlement. The final number of shares to be received is based on the volume weighted average price of the Company's common stock during the ASR term, less a discount and subject to potential adjustments pursuant to the terms of such ASR.

On February 26, 2019, the Company received 11,795,930 shares of its common stock repurchased under ASRs for an aggregate of $2.5 billion. When the shares were received, the exchange was accounted for as an equity transaction with $2.0 billion of the aggregate amount allocated to treasury stock and the remaining $0.5 billion allocated to paid-in-surplus. This delivery of shares represents the initial and likely minimum number of shares that we may receive under the ASRs initiated in 2019. The final settlement is expected to be completed prior to the end of the third quarter of 2019.

On June 15, 2018, the Company received 19,870,292 shares of its common stock repurchased under ASRs for an aggregate of $3.6 billion. Upon settlement of these ASRs in the fourth quarter of 2018, we received 4,457,356 additional shares.

ASRs are accounted for as equity transactions, and at the time of receipt, shares are included in treasury stock at fair market value as of the corresponding initiation or settlement date. The Company reflects shares received as a repurchase of common stock in the weighted average common shares outstanding calculation for basic and diluted earnings per share.

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.

The following tables identify material obligations and commitments as of June 30, 2019:

		Jul. 1 through Dec. 31,	*Payments Due by Dec. 31,*					
Contractual Obligations *Millions*	*Total*	*2019*	*2020*	*2021*	*2022*	*2023*	*After 2023*	*Other*
Debt [a]	$ 42,533	$ 1,808	$ 1,790	$ 2,037	$ 2,159	$ 2,124	$ 32,615	$ -
Operating leases [b]	2,387	166	380	306	273	234	1,028	-
Capital lease obligations [c]	769	62	143	147	130	88	199	-
Purchase obligations [d]	2,795	1,212	1,115	278	60	40	54	36
Other postretirement benefits [e]	239	25	25	24	24	24	117	-

Income tax contingencies [f]	144	96	-	-	-	-	-	48
Total contractual obligations	$ 48,867	$ 3,369	$ 3,453	$ 2,792	$ 2,646	$ 2,510	$ 34,013	$ 84

[a] Excludes capital lease obligations of $651 million, as well as unamortized discount and deferred issuance costs of $(827) million. Includes an interest component of $17,105 million.

[b] Includes leases for locomotives, freight cars, other equipment, and real estate. Includes an interest component of $333 million.

[c] Represents total obligations, including interest component of $118 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 included 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 any interest or penalties, as of June 30, 2019. For amounts where the year of settlement is uncertain, they are included in the Other column.

Other Commercial Commitments *Millions*	*Total*	*Jul. 1 through Dec. 31, 2019*	*Amount of Commitment Expiration by Dec. 31,* *2020*	*2021*	*2022*	*2023*	*After 2023*
Credit facilities [a]	$ 2,000	$ -	$ -	$ -	$ -	$ 2,000	$ -
Receivables securitization facility [b]	650	650	-	-	-	-	-
Guarantees [c]	22	7	5	5	5	-	-
Standby letters of credit [d]	19	7	12	-	-	-	-
Total commercial commitments	$ 2,691	$ 664	$ 17	$ 5	$ 5	$ 2,000	$ -

[a] None of the credit facility was used as of June 30, 2019.

[b] $400 million of the receivables securitization facility was utilized as of June 30, 2019, which is accounted for as debt. The full program matures in July 2019, with the intent to renew under comparable terms and conditions.

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

[d] None of the letters of credit were drawn upon as of June 30, 2019.

OTHER MATTERS

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

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

Accounting Pronouncements – See Note 2 to the Condensed Consolidated Financial Statements.

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 Exchange Act. 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, statements under the caption “Share Repurchase Programs”, statements under the caption “Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial Commitments”, and statements under the caption “Other Matters.” Forward-looking statements and information also include any other statements or information in this report regarding: expectations as to operational or service improvements; expectations regarding the effectiveness of steps taken or to be taken to improve operations, service, infrastructure improvements, and transportation plan modifications; expectations as to cost savings, revenue growth, and earnings; the time by which goals, targets, or objectives will be achieved; projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, future economic performance, and general economic conditions; proposed new products and services; estimates of costs relating to environmental remediation and restoration; estimates and expectations regarding tax matters, expectations that claims, litigation, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated results of operations, financial condition, or liquidity and any other similar expressions concerning matters that are not historical facts.

Forward-looking statements and information reflect the good faith consideration by management of currently available information, and may be based on underlying assumptions believed to be reasonable under the circumstances. However, such information and assumptions (and, therefore, such forward-looking statements and information) are or may be subject to variables or unknown or unforeseeable events or circumstances over which management has little or no influence or control. The Risk Factors in Item 1A of our 2018 Annual Report on Form 10-K, filed February 8, 2019, 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

Table of Contents

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 2018 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 and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based upon that evaluation, the CEO and the CFO concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Environmental Matters

As previously reported, the United States Department of Justice asserted claims against Union Pacific in connection with a September 12, 2014 release of diesel from a locomotive fuel tank arising out of a derailment that occurred in Salem, OR. Some portion of that fuel entered Pringle Creek, which the United States asserted to be a Water of the United States within the meaning of the federal Clean Water Act. On March 26, 2019 the United States District Court for the District of Oregon entered the Stipulation of Settlement and Judgment in this matter, pursuant to which the Company paid $47,500 to the United States and $47,500 to the State of Oregon.

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.

Table of Contents

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 2018 Annual Report on Form 10-K.

Other Matters

Antitrust Litigation - As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 20 rail shippers (many of whom are represented by the same law firms) filed virtually identical antitrust lawsuits in various federal district courts against us and four other Class I railroads in the U.S. Currently, UPRR and three other Class I railroads are the named defendants in the lawsuit. An appellate hearing related to the U.S. District Court for the District of Columbia's denial of class certification for the rail shippers was held on September 28, 2018. We are awaiting a decision regarding that hearing. For additional information on this lawsuit, please refer to Item 3. Legal Proceedings, under Other Matters, Antitrust Litigation in our most recently filed Annual Report on Form 10-K for the year ended December 31, 2018.

As we reported in our Current Report on Form 8-K, filed on June 10, 2011, the Railroad received a complaint filed in the U.S. District Court for the District of Columbia on June 7, 2011, by Oxbow Carbon & Minerals LLC and related entities (Oxbow). On June 12, 2019, Oxbow dismissed its market allocation antitrust claims with prejudice. Union Pacific did not enter into a settlement agreement with Oxbow or provide any type of consideration in connection with dismissal of these claims. A fuel surcharge antitrust claim remains and is stayed pending the decision on class certification discussed above. For additional information on Oxbow, please refer to Item 3. Legal Proceedings, under Other Matters, Antitrust Litigation in our most recently filed Annual Report on Form 10-K for the year ended December 31, 2018.

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

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our 2018 Annual Report on Form 10-K.

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

Purchases of Equity Securities – The following table presents common stock repurchases during each month for the second quarter of 2019:

Period	*Total Number of Shares Purchased [a]*	*Average Price Paid Per Share*	*Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program*	*Maximum Number of Shares That May Be Purchased Under Current Authority [b]*
Apr. 1 through Apr. 30	1,324,817	$ 171.38	1,294,000	148,706,000
May 1 through May 31	1,264,041	173.72	1,261,974	147,444,026
Jun. 1 through Jun. 30	1,178,071	168.49	1,177,000	146,267,026
Total	3,766,929	$ 171.26	3,732,974	N/A

[a] Total number of shares purchased during the quarter includes 33,955 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 April 1, 2019, our Board of Directors authorized the repurchase of up to 150 million shares of our common stock by March 31, 2022, replacing our previous repurchase program. 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.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
Filed with this Statement	
31(a)	Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz.
31(b)	Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert M. Knight, Jr.
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz and Robert M. Knight, Jr.
101	The following financial and related information from Union Pacific Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2019 (filed with the SEC on July 18, 2019), formatted in Inline Extensible Business Reporting Language (iXBRL) includes (i) Condensed Consolidated Statements of Income for the periods ended June 30, 2019 and 2018, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended June 30, 2019 and 2018, (iii) Condensed Consolidated Statements of Financial Position at June 30, 2019 and December 31, 2018, (iv) Condensed

Consolidated Statements of Cash Flows for the periods ended June 30, 2019 and 2018, (v) Condensed Consolidated Statements of Changes in Common Shareholders' Equity for the periods ended June 30, 2019 and 2018, and (vi) the Notes to the Condensed Consolidated Financial Statements.

Incorporated by Reference

3(a)	Restated Articles of Incorporation of UPC, as amended and restated through June 27, 2011, and as further amended May 15, 2014, are incorporated herein by reference to Exhibit 3(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.
3(b)	By-Laws of UPC, as amended, effective November 19, 2015, are incorporated herein by reference to Exhibit 3.2 to the Corporation's Current Report on Form 8-K dated November 19, 2015.

Table of Contents

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: July 18, 2019

UNION PACIFIC CORPORATION (Registrant)

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

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

Exhibit 31(a)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Lance M. Fritz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Pacific Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 18, 2019

/s/ Lance M. Fritz
Lance M. Fritz
Chairman, President and
Chief Executive Officer

Exhibit 31(b)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Robert M. Knight, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Pacific Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 18, 2019

/s/ Robert M. Knight, Jr.
Robert M. Knight, Jr.
Executive Vice President and
Chief Financial Officer

Exhibit 32

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying quarterly report of Union Pacific Corporation (the Corporation) on Form 10-Q for the period ending June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Lance M. Fritz, Chairman, President and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/ Lance M. Fritz
Lance M. Fritz
Chairman, President and
Chief Executive Officer
Union Pacific Corporation

July 18, 2019

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying quarterly report of Union Pacific Corporation (the Corporation) on Form 10-Q for the period ending June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert M. Knight, Jr., Executive Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/ Robert M. Knight, Jr.
Robert M. Knight, Jr.
Executive Vice President and
Chief Financial Officer
Union Pacific Corporation

July 18, 2019

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.