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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2018**  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 1-6075**

**UNION PACIFIC CORPORATION**

(Exact name of registrant as specified in its charter)

**UTAH**  
(State or other jurisdiction of  
incorporation or organization)

**13-2626465**  
(I.R.S. Employer  
Identification No.)

**1400 DOUGLAS STREET, OMAHA, NEBRASKA**  
(Address of principal executive offices)

**68179**  
(Zip Code)

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

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

Yes     No

Indicate by check mark whether the registrant has submitted electronically 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 and post such files).

Yes     No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

Yes     No

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.

As of October 19, 2018, there were 736,790,118 shares of the Registrant's Common Stock outstanding.

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**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****Condensed Consolidated Statements of Income (Unaudited)***Union Pacific Corporation and Subsidiary Companies*

<i>Millions, Except Per Share Amounts, for the Three Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Operating revenues:		
Freight revenues	\$ 5,558	\$ 5,050
Other revenues	370	358
Total operating revenues	5,928	5,408
Operating expenses:		
Compensation and benefits	1,262	1,237
Fuel	659	450
Purchased services and materials	632	615
Depreciation	547	528
Equipment and other rents	272	275
Other	287	230
Total operating expenses	3,659	3,335
Operating income	2,269	2,073
Other income (Note 7)	48	90
Interest expense	(241)	(180)
Income before income taxes	2,076	1,983
Income taxes	(483)	(789)
Net income	\$ 1,593	\$ 1,194
Share and Per Share (Note 9):		
Earnings per share - basic	\$ 2.16	\$ 1.50
Earnings per share - diluted	\$ 2.15	\$ 1.50
Weighted average number of shares - basic	737.4	794.5
Weighted average number of shares - diluted	740.9	797.6
Dividends declared per share	\$ 0.80	\$ 0.605

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

<i>Millions, for the Three Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Net income	\$ 1,593	\$ 1,194
Other comprehensive income/(loss):		
Defined benefit plans	19	40
Foreign currency translation	17	9
Total other comprehensive income/(loss) [a]	36	49
Comprehensive income	\$ 1,629	\$ 1,243

[a] Net of deferred taxes of \$(7) million and \$(27) million during the three months ended September 30, 2018, and 2017, respectively. The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

**Condensed Consolidated Statements of Income (Unaudited)**

*Union Pacific Corporation and Subsidiary Companies*

<i>Millions, Except Per Share Amounts, for the Nine Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Operating revenues:		
Freight revenues	\$ 15,997	\$ 14,750
Other revenues	1,078	1,040
Total operating revenues	17,075	15,790
Operating expenses:		
Compensation and benefits	3,776	3,703
Fuel	1,891	1,344
Purchased services and materials	1,861	1,778
Depreciation	1,636	1,573
Equipment and other rents	803	824
Other	801	709
Total operating expenses	10,768	9,931
Operating income	6,307	5,859
Other income (Note 7)	48	212
Interest expense	(630)	(531)
Income before income taxes	5,725	5,540
Income taxes	(1,313)	(2,106)
Net income	\$ 4,412	\$ 3,434
Share and Per Share (Note 9):		
Earnings per share - basic	\$ 5.82	\$ 4.27
Earnings per share - diluted	\$ 5.79	\$ 4.26
Weighted average number of shares - basic	758.1	803.4
Weighted average number of shares - diluted	761.4	806.5
Dividends declared per share	\$ 2.26	\$ 1.815

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

*Union Pacific Corporation and Subsidiary Companies*

<i>Millions, for the Nine Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Net income	\$ 4,412	\$ 3,434
Other comprehensive income/(loss):		
Defined benefit plans	56	66
Foreign currency translation	(7)	34
Total other comprehensive income/(loss) [a]	49	100
Comprehensive income	\$ 4,461	\$ 3,534

[a] Net of deferred taxes of \$(20) million and \$(59) million during the nine months ended September 30, 2018, and 2017, respectively. The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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

<i>Millions, Except Share and Per Share Amounts</i>	<b>September 30, 2018</b>	<i>December 31, 2017</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,810	\$ 1,275
Short-term investments (Note 14)	90	90
Accounts receivable, net (Note 11)	1,792	1,493
Materials and supplies	789	749
Other current assets	335	399
<b>Total current assets</b>	<b>4,816</b>	<b>4,006</b>
Investments	1,887	1,809
Net properties (Note 12)	52,210	51,605
Other assets	399	386
<b>Total assets</b>	<b>\$ 59,312</b>	<b>\$ 57,806</b>
<b>Liabilities and Common Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and other current liabilities (Note 13)	\$ 3,061	\$ 3,139
Debt due within one year (Note 15)	1,468	800
<b>Total current liabilities</b>	<b>4,529</b>	<b>3,939</b>
Debt due after one year (Note 15)	20,943	16,144
Deferred income taxes	11,270	10,936
Other long-term liabilities	1,925	1,931
Commitments and contingencies (Note 17)		
<b>Total liabilities</b>	<b>38,667</b>	<b>32,950</b>
Common shareholders' equity:		
Common shares, \$2.50 par value, 1,400,000,000 authorized; 1,111,778,144 and 1,111,371,304 issued; 737,518,106 and 780,917,756 outstanding, respectively	2,779	2,778
Paid-in-surplus	3,803	4,476
Retained earnings	44,313	41,317
Treasury stock	(28,858)	(22,574)
Accumulated other comprehensive loss (Note 10)	(1,392)	(1,141)
<b>Total common shareholders' equity</b>	<b>20,645</b>	<b>24,856</b>
<b>Total liabilities and common shareholders' equity</b>	<b>\$ 59,312</b>	<b>\$ 57,806</b>

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

**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
*Union Pacific Corporation and Subsidiary Companies*

<i>Millions,</i>	<b>2018</b>	<b>2017</b>
<i>for the Nine Months Ended September 30,</i>		
<b>Operating Activities</b>		
Net income	\$ 4,412	\$ 3,434
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,636	1,573
Deferred and other income taxes	312	514
Other operating activities, net	368	85
Changes in current assets and liabilities:		
Accounts receivable, net	(299)	(170)
Materials and supplies	(40)	(25)
Other current assets	(65)	(58)
Accounts payable and other current liabilities	(175)	(43)
Income and other taxes	225	88
Cash provided by operating activities	<b>6,374</b>	<b>5,398</b>
<b>Investing Activities</b>		
Capital investments	(2,428)	(2,379)
Purchases of short-term investments (Note 14)	(90)	(90)
Maturities of short-term investments (Note 14)	90	60
Proceeds from asset sales	39	152
Other investing activities, net	(45)	(3)
Cash used in investing activities	<b>(2,434)</b>	<b>(2,260)</b>
<b>Financing Activities</b>		
Share repurchase programs (Note 18)	(7,024)	(2,882)
Debt issued (Note 15)	6,992	2,285
Debt repaid	(1,807)	(471)
Dividends paid	(1,716)	(1,460)
Net issuance of commercial paper	195	-
Other financing activities, net	(45)	(40)
Cash used in financing activities	<b>(3,405)</b>	<b>(2,568)</b>
Net change in cash and cash equivalents	535	570
Cash and cash equivalents at beginning of year	1,275	1,277
Cash and cash equivalents at end of period	<b>\$ 1,810</b>	<b>\$ 1,847</b>
<b>Supplemental Cash Flow Information</b>		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	\$ 159	\$ 120
Capital lease financings	12	-
Common shares repurchased but not yet paid	10	29
Cash (paid for)/received from:		
Income taxes, net of refunds	\$ (845)	\$ (1,557)
Interest, net of amounts capitalized	(577)	(532)

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

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

<i>Millions</i>	<i>Common Shares</i>	<i>Treasury Shares</i>	<i>Common Shares</i>	<i>Paid-in-Surplus</i>	<i>Retained Earnings</i>	<i>Treasury Stock</i>	<i>AOCI [a]</i>	<i>Total</i>
Balance at January 1, 2017	1,111.0	(295.2)	\$ 2,777	\$ 4,421	\$ 32,587	\$ (18,581)	\$ (1,272)	\$ 19,932
Net income			-	-	3,434	-	-	3,434
Other comprehensive income			-	-	-	-	100	100
Conversion, stock option exercises, forfeitures, and other	0.4	0.7	1	33	-	22	-	56
Share repurchase programs (Note 18)	-	(27.1)	-	-	-	(2,911)	-	(2,911)
Cash dividends declared (\$1.815 per share)	-	-	-	-	(1,460)	-	-	(1,460)
<b>Balance at September 30, 2017</b>	<b>1,111.4</b>	<b>(321.6)</b>	<b>\$ 2,778</b>	<b>\$ 4,454</b>	<b>\$ 34,561</b>	<b>\$ (21,470)</b>	<b>\$ (1,172)</b>	<b>\$ 19,151</b>
Balance at January 1, 2018	1,111.4	(330.5)	\$ 2,778	\$ 4,476	\$ 41,317	\$ (22,574)	\$ (1,141)	\$ 24,856
Net income			-	-	4,412	-	-	4,412
Other comprehensive income			-	-	-	-	49	49
Conversion, stock option exercises, forfeitures, and other	0.4	0.9	1	47	-	30	-	78
Share repurchase programs (Note 18)	-	(44.7)	-	(720)	-	(6,314)	-	(7,034)
Cash dividends declared (\$2.26 per share)	-	-	-	-	(1,716)	-	-	(1,716)
Reclassification due to ASU 2018-02 adoption (Note 2)	-	-	-	-	300	-	(300)	-
<b>Balance at September 30, 2018</b>	<b>1,111.8</b>	<b>(374.3)</b>	<b>\$ 2,779</b>	<b>\$ 3,803</b>	<b>\$ 44,313</b>	<b>\$ (28,858)</b>	<b>\$ (1,392)</b>	<b>\$ 20,645</b>

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (Note 10)  
 The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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 2017 Annual Report on Form 10-K. Our Consolidated Statement of Financial Position at December 31, 2017, is derived from audited financial statements. The results of operations for the nine months ended September 30, 2018, are not necessarily indicative of the results for the entire year ending December 31, 2018.

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 May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. This may require the use of more judgment and estimates in order to correctly recognize the revenue expected as an outcome of each specific performance obligation. Additionally, this guidance requires the disclosure of the nature, amount, and timing of revenue arising from contracts so as to aid in the understanding of the users of financial statements.

Effective January 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective transition method. The Company analyzed its freight and other revenues and recognizes freight revenues as freight moves from origin to destination and recognizes other revenues as identified performance obligations are satisfied. We also analyzed freight and other revenues in the context of the new guidance on principal versus agent considerations and evaluated the required new disclosures. The ASU did not have an impact on our consolidated financial position, results of operations, or cash flows.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01), *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. ASU 2016-01 provides guidance for the recognition, measurement, presentation, and disclosure of financial instruments. Effective January 1, 2018, the Company adopted the ASU and it did not have an impact on our consolidated financial position, results of operations, or cash flows.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 (ASU 2017-07), *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)*. ASU 2017-07 requires the service cost component be reported separately from the other components of net benefit costs in the income statement, provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the income statement, and allows only the service cost component of net benefit cost to be eligible for capitalization. Effective January 1, 2018, we adopted the standard on a retrospective basis. As a result of the adoption, only service costs are recorded within compensation and benefits expense, and the other components of net benefit costs are now recorded within other income.



The retrospective adoption of ASU 2017-07 is shown in the following table:

Millions	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Increase/(decrease) in operating income	\$ (3)	61	\$ (11)	\$ 49
Increase/(decrease) in other income	3	(61)	11	(49)

On February 14, 2018, the FASB issued Accounting Standards Update 2018-02, (ASU 2018-02), *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows entities the option to reclassify from accumulated other comprehensive income (AOCI) to retained earnings the income tax effects that remain stranded in AOCI resulting from the application of the Tax Act. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018. Early adoption of the ASU is permitted. We adopted ASU 2018-02 during the first quarter of 2018. As a result of this adoption, we elected to reclassify \$300 million from AOCI to retained earnings. We adopted the policy that future income tax effects that are stranded in AOCI will be released only when the entire portfolio of the type of item is liquidated.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Subtopic 842)*. ASU 2016-02 will require companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company continues to evaluate the impact of this standard on our consolidated financial position, results of operations, and cash flows, and expects that the adoption will result in an increase in the Company's assets and liabilities of over \$2 billion. However, the ultimate impact of the standard will depend on our lease portfolio as of the adoption date. Additionally, we have implemented an enterprise-wide lease management system to support the new reporting requirements and are evaluating our processes and internal controls to ensure we meet the standard's reporting and disclosure requirements.

### 3. Significant Accounting Policies Update

Our significant accounting policies are detailed in Note 2 of our Annual Report on Form 10-K for the year ended December 31, 2017. Changes to our accounting policies as a result of adopting ASU 2014-09 are discussed below.

**Revenue Recognition** – Freight revenues are derived from contracts with customers. We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. Our contracts include private agreements, private rate/letter quotes, public circulars/tariffs, and interline/foreign agreements. The performance obligation in our contracts is typically delivering a specific commodity from a place of origin to a place of destination and our commitment begins with the tendering and acceptance of a freight bill of lading and is satisfied upon delivery at destination. We consider each freight shipment to be a distinct performance obligation.

We recognize freight revenues over time as freight moves 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. Outstanding performance obligations related to freight moves in transit totaled \$151 million at September 30, 2018 and \$154 million at December 31, 2017 and are expected to be recognized in the next quarter as we satisfy our remaining performance obligations and deliver freight to destination. The transaction price is generally specified in a contract and may be dependent on the commodity, origin/destination, and route. Customer incentives, which are primarily provided for shipping a specified cumulative volume or shipping to/from specific locations, are recorded as a reduction to operating revenues based on actual or projected future customer shipments.

Under typical payment terms, our customers pay us after each performance obligation is satisfied and there are no material contract assets or liabilities associated with our freight revenues. Outstanding freight receivables are presented in our Consolidated Statement of Financial Position as Accounts Receivables, net.

Freight revenue related to interline transportation services that involve other railroads are reported on a net basis. The portion of the gross amount billed to customers that is remitted by the Company to another party is not reflected as freight revenue.

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.

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

<i>Millions</i>	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<b>2018</b>	2017	<b>2018</b>	2017
Agricultural Products	\$ 1,133	\$ 1,072	\$ 3,345	\$ 3,230
Energy	1,214	1,204	3,498	3,285
Industrial	1,497	1,324	4,274	3,922
Premium	1,714	1,450	4,880	4,313
Total freight revenues	\$ 5,558	\$ 5,050	\$ 15,997	\$ 14,750
Other subsidiary revenues	228	223	656	660
Accessorial revenues	126	121	373	335
Other	16	14	49	45
Total operating revenues	\$ 5,928	\$ 5,408	\$ 17,075	\$ 15,790

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination 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 \$636 million and \$555 million, respectively, for the three months ended September 30, 2018, and September 30, 2017, and \$1,850 million and \$1,697 million, respectively for the nine months ended September 30, 2018, and September 30, 2017.

#### 5. Stock-Based Compensation

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

<i>Millions</i>	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<b>2018</b>	2017	<b>2018</b>	2017
Stock-based compensation, before tax:				
Stock options	\$ 5	\$ 6	\$ 13	\$ 15
Retention awards	21	24	64	68
Total stock-based compensation, before tax	\$ 26	\$ 30	\$ 77	\$ 83
Excess tax benefits from equity compensation plans	\$ 7	\$ 4	\$ 26	\$ 29

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

<i>Weighted-Average Assumptions</i>	<b>2018</b>	<b>2017</b>
Risk-free interest rate	<b>2.6%</b>	2.0%
Dividend yield	<b>2.3%</b>	2.3%
Expected life (years)	<b>5.3</b>	5.3
Volatility	<b>21.1%</b>	21.7%
Weighted-average grant-date fair value of options granted	<b>\$ 21.70</b>	\$ 18.19

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 nine months ended September 30, 2018, is presented below:

	<i>Options (thous.)</i>	<i>Weighted- Average Exercise Price</i>	<i>Weighted-Average Remaining Contractual Term</i>	<i>Aggregate Intrinsic Value (millions)</i>
Outstanding at January 1, 2018	5,630	\$ 83.37	5.8 yrs.	\$ 286
Granted	800	124.86	N/A	N/A
Exercised	(1,055)	71.05	N/A	N/A
Forfeited or expired	(103)	97.71	N/A	N/A
Outstanding at September 30, 2018	5,272	\$ 91.85	5.7 yrs.	\$ 374
Vested or expected to vest at September 30, 2018	5,218	\$ 91.67	5.7 yrs.	\$ 371
Options exercisable at September 30, 2018	3,471	\$ 83.78	4.3 yrs.	\$ 274

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at September 30, 2018, are subject to performance or market-based vesting conditions.

At September 30, 2018, there was \$22 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.1 years. Additional information regarding stock option exercises appears in the table below:

<i>Millions</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<b>2018</b>	2017	<b>2018</b>	2017
Intrinsic value of stock options exercised	\$ 30	\$ 10	\$ 77	40
Cash received from option exercises	26	11	71	39
Treasury shares repurchased for employee payroll taxes	(6)	(3)	(19)	(12)
Tax benefit realized from option exercises	7	4	19	15
Aggregate grant-date fair value of stock options vested	-	-	18	19

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

Changes in our retention awards during the nine months ended September 30, 2018, were as follows:

	<i>Shares (thous.)</i>	<i>Weighted-Average Grant-Date Fair Value</i>
Nonvested at January 1, 2018	2,313	\$ 95.04
Granted	535	125.17
Vested	(626)	88.33
Forfeited	(75)	101.84
Nonvested at September 30, 2018	2,147	\$ 104.27

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At September 30, 2018, there was \$101 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.9 years.

**Performance Retention Awards** – In February 2018, our Board of Directors approved performance stock unit grants. The basic terms of these performance stock units are identical to those granted in February 2017, 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.

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 2018 grant were as follows:

	<i>2018</i>
Dividend per share per quarter	\$ 0.73
Risk-free interest rate at date of grant	2.3%

Changes in our performance retention awards during the nine months ended September 30, 2018, were as follows:

	<i>Shares (thous.)</i>	<i>Weighted-Average Grant-Date Fair Value</i>
Nonvested at January 1, 2018	1,138	\$ 92.92
Granted	348	117.80
Vested	(94)	112.19
Unearned	(201)	114.97
Forfeited	(75)	89.32
Nonvested at September 30, 2018	1,116	\$ 95.33

At September 30, 2018, there was \$47 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.4 years. This expense is subject to achievement of the performance measures established for the performance stock unit grants.

## 6. Retirement Plans

### Pension and Other Postretirement Benefits

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

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

### Expense

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

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

<i>Millions</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<b>2018</b>	2017	<b>2018</b>	2017
Service cost	\$ 26	\$ 21	\$ 79	\$ 66
Interest cost	36	35	108	106
Expected return on plan assets	(68)	(66)	(204)	(198)
Curtailment cost	-	20	-	20
Special termination cost	-	47	-	47
Amortization of actuarial loss	24	20	69	59
<b>Net periodic pension cost</b>	<b>\$ 18</b>	<b>\$ 77</b>	<b>\$ 52</b>	<b>\$ 100</b>

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

<i>Millions</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<b>2018</b>	2017	<b>2018</b>	2017
Service cost	\$ -	\$ -	\$ 1	\$ 1
Interest cost	3	3	8	8
Amortization of:				
Prior service cost	-	-	1	-
Actuarial loss	2	2	7	7
<b>Net periodic OPEB cost</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 17</b>	<b>\$ 16</b>

As a result of the adoption of ASU 2017-07 effective January 1, 2018, only service costs are recorded within compensation and benefits expense, and the other components of net benefit costs are now recorded within other income.

### Cash Contributions

For the nine months ended September 30, 2018, we did not make any cash contributions to the qualified pension plan. Any contributions made during 2018 will be based on cash generated from operations and financial market considerations. Our policy with respect to funding the qualified plans is to fund at least the minimum required by law and not more than the maximum amount deductible for tax purposes. At September 30, 2018, we do not have minimum cash funding requirements for 2018.

### 7. Other Income

Other income included the following:

<i>Millions</i>	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<b>2018</b>	2017	<b>2018</b>	2017
Early extinguishment of debt [a]	\$ -	\$ -	\$ (85)	\$ -
Rental income [b]	33	89	91	152
Interest income	10	4	19	10
Net gain on non-operating asset dispositions [c]	6	63	19	108
Net periodic pension and OPEB costs	3	(61)	11	(49)
Non-operating environmental costs and other	(4)	(5)	(7)	(9)
<b>Total</b>	<b>\$ 48</b>	<b>\$ 90</b>	<b>\$ 48</b>	<b>\$ 212</b>

[a] 2018 includes a debt extinguishment charge for the early redemption of certain bonds and debentures in the first quarter (Note 15).

[b] 2017 includes \$65 million related to a favorable litigation settlement in the third quarter.

[c] 2017 includes \$26 million related to a real estate sale in the first quarter and \$57 million related to a real estate sale in the third quarter.

### 8. Income Taxes

On December 22, 2017, The Tax Cuts and Jobs Act (the Tax Act) was enacted. The Tax Act made significant changes to federal tax law, including a reduction in the federal income tax rate from 35% to 21% effective January 1, 2018, 100% bonus depreciation for certain capital expenditures, stricter limits on deductions for interest and certain executive compensation, and a one-time transition tax on previously deferred earnings of certain foreign subsidiaries. As a result of our initial analysis of the Tax Act and existing implementation guidance, we remeasured our deferred tax assets and liabilities and computed our transition tax liability net of offsetting foreign tax credits. This resulted in a \$5.9 billion reduction in our income tax expense in the fourth quarter of 2017. We also recorded a \$212 million reduction to our operating expense related to income tax adjustments at equity-method affiliates in the fourth quarter of 2017.

The SEC provided guidance in SAB 118 on accounting for the tax effects of the Tax Act. In accordance with that guidance, some of the income tax effects recorded in 2017 are provisional, including those related to our analysis of 100% bonus depreciation for certain capital expenditures, stricter limits on deductions for certain executive compensation, the one-time transition tax, and the reduction to our operating expense related to income tax adjustments at equity-method affiliates. The accounting for the income tax effects may be adjusted during 2018 as a result of continuing analysis of the Tax Act; additional implementation guidance from the Internal Revenue Service (IRS), state tax authorities, the SEC, the FASB, or the Joint Committee on Taxation; and new information from domestic or foreign equity affiliates. We had no material adjustments to our initial analysis of the Tax Act in the nine months ended September 30, 2018.

The IRS is examining UPC's 2016 tax return. The statute of limitations has run for all years prior to 2015. In 2017, UPC amended its 2013 income tax return, primarily to claim deductions resulting from the resolution of prior year IRS examinations. The IRS and Joint Committee on Taxation have completed their review of the 2013 return, and in the second quarter of 2018 we received a refund of \$19 million.

Several state tax authorities are examining our state tax returns for years 2010 through 2016.

In May of 2018, Iowa enacted legislation to reduce its corporate tax rate beginning in 2021. The rate change reduced our deferred tax expense by \$17 million in the second quarter of 2018.

In June of 2018, Missouri enacted legislation to reduce its corporate tax rate beginning in 2020. The rate change reduced our deferred tax expense by \$14 million in the second quarter of 2018.

At September 30, 2018, we had a net liability for unrecognized tax benefits of \$177 million.

## 9. Earnings Per Share

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

<i>Millions, Except Per Share Amounts</i>	<i>Three Months Ended September 30,</i>		<i>Nine Months Ended September 30,</i>	
	<b>2018</b>	2017	<b>2018</b>	2017
Net income	\$ 1,593	\$ 1,194	\$ 4,412	\$ 3,434
Weighted-average number of shares outstanding:				
Basic	737.4	794.5	758.1	803.4
Dilutive effect of stock options	2.0	1.7	1.9	1.7
Dilutive effect of retention shares and units	1.5	1.4	1.4	1.4
Diluted	740.9	797.6	761.4	806.5
Earnings per share – basic	\$ 2.16	\$ 1.50	\$ 5.82	\$ 4.27
Earnings per share – diluted	\$ 2.15	\$ 1.50	\$ 5.79	\$ 4.26
Stock options excluded as their inclusion would be anti-dilutive	-	1.9	0.4	1.8

## 10. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2018, and 2017, were as follows (net of tax):

<i>Millions</i>	<i>Defined benefit plans</i>	<i>Foreign currency translation</i>	<i>Total</i>
Balance at July 1, 2018	\$ (1,217)	\$ (211)	\$ (1,428)
Other comprehensive income/(loss) before reclassifications	-	17	17
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	19	17	36
Balance at September 30, 2018	\$ (1,198)	\$ (194)	\$ (1,392)
Balance at July 1, 2017	\$ (1,106)	\$ (115)	\$ (1,221)
Other comprehensive income/(loss) before reclassifications	3	9	12
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	37	-	37
Net quarter-to-date other comprehensive income/(loss), net of taxes of \$(27) million	40	9	49
Balance at September 30, 2017	\$ (1,066)	\$ (106)	\$ (1,172)

[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 6 Retirement Plans for additional details.

<i>Millions</i>	<i>Defined benefit plans</i>	<i>Foreign currency translation</i>	<i>Total</i>
Balance at January 1, 2018	\$ (1,029)	\$ (112)	\$ (1,141)
Other comprehensive income/(loss) before reclassifications	(1)	(7)	(8)
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	57	-	57
Net year-to-date other comprehensive income/(loss), net of taxes of \$(20) million	56	(7)	49
Reclassification due to ASU 2018-02 adoption (Note 2)	(225)	(75)	(300)
Balance at September 30, 2018	\$ (1,198)	\$ (194)	\$ (1,392)
Balance at January 1, 2017	\$ (1,132)	\$ (140)	\$ (1,272)
Other comprehensive income/(loss) before reclassifications	1	34	35
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	65	-	65
Net year-to-date other comprehensive income/(loss), net of taxes of \$(59) million	66	34	100
Balance at September 30, 2017	\$ (1,066)	\$ (106)	\$ (1,172)

[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 6 Retirement Plans for additional details.

## 11. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, credit worthiness of customers, and current economic conditions. At both September 30, 2018, and December 31, 2017, our accounts receivable were reduced by \$3 million. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At September 30, 2018, and December 31, 2017, receivables classified as other assets were reduced by allowances of \$27 million and \$17 million, respectively.

**Receivables Securitization Facility** – The Railroad maintains a \$650 million, 3-year receivables securitization facility (the Receivables Facility) maturing in July 2019. 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 outstanding under the Receivables Facility was \$400 million and \$500 million at September 30, 2018, and December 31, 2017, respectively. The Receivables Facility was supported by \$1.4 billion and \$1.1 billion of accounts receivable as collateral at September 30, 2018, and December 31, 2017, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amount the Railroad is allowed to maintain under the 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.



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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 \$1 million for the three months ended September 30, 2018, and 2017, respectively, and \$11 million and \$4 million for the nine months ended September 30, 2018, and 2017, respectively.

### 12. 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):

<i>Millions, Except Estimated Useful Life As of September 30, 2018</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	<i>Estimated Useful Life</i>
Land	\$ 5,268	\$ N/A	\$ 5,268	N/A
Road:				
Rail and other track material	16,670	6,093	10,577	43
Ties	10,395	3,027	7,368	33
Ballast	5,518	1,573	3,945	34
Other roadway [a]	19,375	3,700	15,675	48
Total road	51,958	14,393	37,565	N/A
Equipment:				
Locomotives	9,715	3,836	5,879	19
Freight cars	2,242	939	1,303	24
Work equipment and other	989	297	692	19
Total equipment	12,946	5,072	7,874	N/A
Technology and other	1,128	492	636	12
Construction in progress	867	-	867	N/A
Total	\$ 72,167	\$ 19,957	\$ 52,210	N/A

<i>Millions, Except Estimated Useful Life As of December 31, 2017</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	<i>Estimated Useful Life</i>
Land	\$ 5,258	\$ N/A	\$ 5,258	N/A
Road:				
Rail and other track material	16,327	5,929	10,398	43
Ties	10,132	2,881	7,251	33
Ballast	5,406	1,509	3,897	34
Other roadway [a]	18,972	3,482	15,490	47
Total road	50,837	13,801	37,036	N/A
Equipment:				
Locomotives	9,686	3,697	5,989	19
Freight cars	2,255	983	1,272	24
Work equipment and other	936	267	669	19
Total equipment	12,877	4,947	7,930	N/A
Technology and other	1,105	460	645	11
Construction in progress	736	-	736	N/A
Total	\$ 70,813	\$ 19,208	\$ 51,605	N/A

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

**13. Accounts Payable and Other Current Liabilities**

<i>Millions</i>	<b>Sep. 30, 2018</b>	<i>Dec. 31, 2017</i>
Accounts payable	\$ 905	\$ 1,013
Income and other taxes payable	644	547
Accrued wages and vacation	381	384
Interest payable	240	220
Accrued casualty costs	200	194
Equipment rents payable	113	110
Other	578	671
Total accounts payable and other current liabilities	\$ 3,061	\$ 3,139

**14. Financial Instruments**

**Short-Term Investments** – The Company’s short-term investments consist of time deposits (\$90 million as of September 30, 2018). These investments are considered Level 2 investments and are valued at amortized cost, which approximates fair value. 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 nine months ended September 30, 2018.

**Fair Value of Financial Instruments** – The fair value of our short- and long-term debt was estimated using a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt securities. All of the inputs used to determine the fair market value of the Corporation’s long-term debt are Level 2 inputs and obtained from an independent source. At September 30, 2018, the fair value of total debt was \$22.2 billion, approximately \$0.2 billion less than the carrying value. At December 31, 2017, the fair value of total debt was \$18.2 billion, approximately \$1.3 billion more than the carrying value. The fair value of the Corporation’s debt is a measure of its current value under present market conditions. At September 30, 2018, and December 31, 2017, approximately \$0 and \$155 million, respectively of debt securities contained call provisions that allow us to retire the debt instruments prior to final maturity, at par, without the payment of fixed call premiums. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

**15. Debt**

**Credit Facilities** – During the second quarter of 2018, we replaced our \$1.7 billion revolving credit facility, which was scheduled to expire in May 2019, with a new \$2.0 billion facility that expires in June 2023 (the Facility). The Facility is based on substantially similar terms as those in the previous credit facility. At September 30, 2018, we had \$2.0 billion of credit available under our revolving credit facility, which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on either facility at any time during the nine months ended September 30, 2018. 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 prior facility required UPC to maintain a debt-to-net-worth coverage ratio. The new five-year facility 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 September 30, 2018, the Company was in compliance with the debt-to-EBITDA coverage ratio, which allows us to carry up to \$37.3 billion of debt (as defined in the Facility), and we had \$23.3 billion of debt (as defined in the Facility) outstanding at that date. Under our current financial plans, we expect to continue to satisfy the debt-to-EBITDA coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The Facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The Facility also includes a \$150 million cross-default provision and a change-of-control provision.

During the nine months ended September 30, 2018, we issued \$6.46 billion and repaid \$6.26 billion of commercial paper with maturities ranging from 1 to 34 days, and at September 30, 2018, we had \$200 million of commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and, unless we change the terms of our commercial paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the Facility.

In May 2018, we entered into a short-term bilateral line of credit agreement with \$1.0 billion of credit available. During the three months ended June 30, 2018, we drew and repaid \$750 million. The line of credit matured in August 2018. We used the proceeds for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase programs.

**Shelf Registration Statement and Significant New Borrowings** – We filed an automatic shelf registration statement with the SEC that became effective on February 12, 2018 (the Shelf). The Board of Directors authorized the issuance of up to \$6 billion of debt securities, replacing the prior Board authorization in July 2016, which had \$1.55 billion of authority remaining. 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 nine months ended September 30, 2018, we issued the following unsecured, fixed-rate debt securities under our current Shelf registration:

<i>Date</i>	<i>Description of Securities</i>
June 8, 2018	\$600 million of 3.200% Notes due June 8, 2021
	\$650 million of 3.500% Notes due June 8, 2023
	\$500 million of 3.750% Notes due July 15, 2025
	\$1.5 billion of 3.950% Notes due September 10, 2028
	\$750 million of 4.375% Notes due September 10, 2038
	\$1.5 billion of 4.500% Notes due September 10, 2048
	\$500 million of 4.800% Notes due September 10, 2058

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.

On July 26, 2018, the Board of Directors renewed its authorization for the Company to issue up to \$6.0 billion of debt securities under the Shelf. This authorization replaces the original Board authorization in February 2018 which had no remaining authority. At September 30, 2018, we had remaining authority to issue up to \$6.0 billion of debt securities under our Shelf registration.

**Receivables Securitization Facility** – As of September 30, 2018, and December 31, 2017, we recorded \$400 million and \$500 million, respectively, of borrowings under our Receivables Facility as secured debt. (See further discussion of our receivables securitization facility in Note 11).

**Debt Redemption** – Effective as of March 15, 2018, we redeemed, in entirety, the Missouri Pacific 5% Income Debentures due 2045, the Chicago and Eastern Illinois 5% Income Debentures due 2054, and the Missouri Pacific 4.75% General Mortgage Income Bonds Series A due 2020 and Series B due 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.

## 16. 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 \$1.7 billion as of September 30, 2018.

## 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 September 30, 2018. 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 \$273 million to \$299 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:

<i>Millions, for the Nine Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 285	\$ 290
Current year accruals	53	58
Changes in estimates for prior years	(15)	(6)
Payments	(50)	(55)
Ending balance at September 30	\$ 273	\$ 287
Current portion, ending balance at September 30	\$ 70	\$ 69

We have insurance coverage for a portion of the costs incurred to resolve personal injury-related claims, and we have recognized an asset for estimated insurance recoveries at September 30, 2018, and December 31, 2017. 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 346 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 33 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.

Our environmental liability activity was as follows:

<i>Millions, for the Nine Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 196	\$ 212
Accruals	62	31
Payments	(41)	(42)
Ending balance at September 30	\$ 217	\$ 201
Current portion, ending balance at September 30	\$ 58	\$ 56

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

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

**Guarantees** – At September 30, 2018, and December 31, 2017, we were contingently liable for \$26 million and \$33 million, respectively, in guarantees. The fair value of these obligations as of both September 30, 2018, and December 31, 2017 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.

**Operating Leases** – At September 30, 2018, we had commitments for future minimum lease payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year of approximately \$2.3 billion.

**Gain Contingency** – UPRR filed multiple claims with the IRS for refunds of railroad retirement taxes (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. In 2016, the U.S. District Court for the District of Nebraska (the District Court) denied UPRR recovery of these Railroad Retirement Taxes. UPRR appealed this denial to the U.S. Court of Appeals for the 8<sup>th</sup> Circuit (8<sup>th</sup> Circuit) and the 8<sup>th</sup> Circuit ruled in favor of UPRR and remanded the case to the District Court. The IRS appealed the 8<sup>th</sup> 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 8<sup>th</sup> Circuit ruling and our refund claims for 1991-2007 are currently pending review in the District Court. Claims from 2008-2017 are also pending before the IRS. These claims are considered gain contingencies and no refund amounts have been recognized in the Consolidated Financial Statements as of September 30, 2018. The claims will be recognized when we are certain as to the amount and timing of the refunds. These refunds may significantly impact UPRR's results of operations during the reporting period or periods in which they are recognized.

## 18. Share Repurchase Programs

Effective January 1, 2017, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2020, replacing our previous repurchase program. As of September 30, 2018, we repurchased a total of \$29.5 billion of our common stock since commencement of our repurchase programs in 2007. The table below represents shares repurchased under this repurchase program during 2017 and 2018.

	Number of Shares Purchased		Average Price Paid	
	2018	2017	2018	2017
First quarter	9,259,004	7,531,300	\$ 132.84	\$ 106.55
Second quarter [a]	33,229,992	7,788,283	142.74	109.10
Third quarter	2,239,405	11,801,755	151.94	106.69
Total	44,728,401	27,121,338	\$ 141.15	\$ 107.34
Remaining number of shares that may be repurchased under current authority				38,918,751

[a] 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. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

**Accelerated Share Repurchase Programs** – On June 14, 2018, the Company established accelerated share repurchase programs (ASRs) with two financial institutions to repurchase shares of our common stock. On June 15, 2018, the Company received 19,870,292 shares of its common stock repurchased under the ASRs for an aggregate of \$3.6 billion. When the shares were received, the exchange was accounted for as an equity transaction with \$2.9 billion of the aggregate amount allocated to treasury stock and the remaining \$0.7 billion allocated to paid-in-surplus. The Company reflected the shares received as a repurchase of common stock in the weighted average common shares outstanding calculation for basic and diluted earnings per share.

Under these ASRs, we paid a specified amount to the financial institutions and received an initial delivery of shares. This delivery of shares represents the initial and likely minimum number of shares that we may receive under the ASRs. The final number of shares to be repurchased under the ASRs will be based on the volume weighted average stock 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 October 25, 2018, half of the remaining balance was settled through receipt of 2,220,380 additional shares from one of the financial institutions. The final settlement with the other financial institution is expected to be completed prior to the end of the fourth quarter of 2018.

#### **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 and \$1.2 billion recognized as investments related to TTX in our Condensed Consolidated Statements of Financial Position as of September 30, 2018, and December 31, 2017, respectively. TTX car hire expenses of \$104 million and \$100 million for the three months ended September 30, 2018, and 2017, respectively, and \$324 million and \$284 million for the nine months ended September 30, 2018, and 2017, respectively, are included in equipment and other rents in our Condensed Consolidated Statements of Income. In addition, UPRR had accounts payable to TTX of \$68 million and \$69 million as of September 30, 2018, and December 31, 2017, 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 Nine Months Ended September 30, 2018, Compared to  
Three and Nine Months Ended September 30, 2017**

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](http://www.up.com). We make available free of charge on our website (under the "Investors" caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; eXtensible Business Reporting Language (XBRL) documents; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to any such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC's Internet site at [www.sec.gov](http://www.sec.gov). We provide these previously filed reports as a convenience and their contents reflect only information that was true and correct as of the date of the report. We assume no obligation to update this historical information. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: 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 2017 Annual Report on Form 10-K. In 2018, there were changes to our significant accounting policies as a result of adopting ASU 2014-09 on January 1, 2018. See Notes 2 and 3 of the Condensed Consolidated Financial Statements for further information.



## RESULTS OF OPERATIONS

### Quarterly Summary

We reported earnings of \$2.15 per diluted share on net income of \$1.6 billion in the third quarter of 2018 compared to earnings of \$1.50 per diluted share on net income of \$1.2 billion for the third quarter of 2017. Freight revenues increased 10% in the third quarter compared to the same period in 2017 driven by 6% volume growth, a 4% increase in average revenue per car (ARC), resulting from higher fuel surcharge revenue and core pricing gains, partially offset by negative mix of traffic. Growth in shipments of intermodal, auto parts, petroleum products, industrial chemicals, rock, plastics, and finished vehicles more than offset declines in frac sand and coal shipments. Disruptions caused by Hurricane Harvey in the third quarter of 2017 also positively impacted volume growth year-over-year.

These top line results contributed to operating income growth of 9% compared to 2017, despite a 34% increase in fuel price. Net income increased 33%, driven by base business operations and a lower federal tax rate implemented on January 1, 2018, resulting from the passage of The Tax Cuts and Jobs Act (the Tax Act) in late 2017.

While we generated productivity savings during the third quarter of 2018 in a number of different areas, these savings were largely offset by approximately \$50 million in additional costs due to our continued operational challenges resulting from higher labor, equipment rental, locomotive maintenance, and fuel consumption costs. Despite these challenges, we handled volume growth of 6% with a 1% increase in workforce levels compared to the third quarter of 2017, demonstrating progress in other resource productivity initiatives, including engineering projects and management and administrative reductions. At the end of the third quarter, approximately 250 employees across all crafts were furloughed, and approximately 400 high-horsepower, road locomotives were in storage.

Network congestion on key routes and terminals and high freight car inventory levels started impacting operational performance in the third quarter of 2017, and has continued into 2018. Our third quarter results indicate that network performance has stabilized, and in some areas, reflect modest, sequential improvement, such as a reduction in our active locomotive fleet despite sequential volume growth, improved fuel consumption efficiency, and reduced terminal dwell when compared to the second quarter of 2018. As reported to the Association of American Railroads (AAR) in the third quarter 2018, average terminal dwell time decreased 2% to 29.3 hours, while average train speed decreased 6% to 24.0 miles per hour in the third quarter of 2018 compared to 2017. Continued implementation and testing of Positive Train Control across a larger portion of our network also negatively impacted overall average train speed.

On September 17, 2018, we announced a new operating plan called Unified Plan 2020, which builds upon the principles and strategy reviewed at the Company's May 2018 Investor Day meeting. The Unified Plan 2020 is an important part of the Company's objective of operating a safe, reliable and efficient railroad by increasing reliability of our service product, reducing variability in network operations, and improving resource utilization costs.

## Operating Revenues

<i>Millions</i>	<i>Three Months Ended</i>			<i>Nine Months Ended</i>		
	<i>September 30,</i>			<i>September 30,</i>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Freight revenues	\$ 5,558	\$ 5,050	10 %	\$ 15,997	\$ 14,750	8 %
Other subsidiary revenues	228	223	2	656	660	(1)
Accessorial revenues	126	121	4	373	335	11
Other	16	14	14	49	45	9
<b>Total</b>	<b>\$ 5,928</b>	<b>\$ 5,408</b>	<b>10 %</b>	<b>\$ 17,075</b>	<b>\$ 15,790</b>	<b>8 %</b>

We generate freight revenues by transporting freight or other materials from our four commodity groups. Prior to 2018, we reported on six commodity groups, thus 2017 freight revenue, average revenue per car, and carloadings have been realigned to the new reporting format. 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 increased 10% during the third quarter of 2018 compared to 2017, resulting from 6% volume growth, higher fuel surcharge revenue, and core pricing gains, partially offset by negative mix of traffic. Growth in shipments of intermodal, auto parts, petroleum products, industrial chemicals, rock, plastics, and finished vehicles more than offset declines in frac sand and coal shipments. Disruptions caused by Hurricane Harvey in the third quarter of 2017 also positively impacted volume growth year-over-year.

Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were \$482 million and \$1.25 billion in the third quarter and year-to-date periods of 2018 compared to \$227 million and \$673 million in the same periods of 2017. Higher fuel surcharge revenue resulted from higher year-over-year fuel prices, partially offset by a modest lag in fuel surcharge recovery due to the sequential increase in fuel price from the second quarter of 2018 (it can generally take up to two months for changing fuel prices to affect fuel surcharge recoveries).

Other revenues increased in the third quarter and year-to-date periods compared to 2017 driven by higher accessorial revenues associated with carload and container volume growth. Higher revenues at our subsidiaries, primarily those that broker intermodal, transload, and refrigerated warehousing logistics services also contributed to the third quarter increase compared to 2017.

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

<b>Freight Revenues</b> <i>Millions</i>	<i>Three Months Ended</i> <i>September 30,</i>			<i>Nine Months Ended</i> <i>September 30,</i>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Agricultural Products	\$ 1,133	\$ 1,072	6 %	\$ 3,345	\$ 3,230	4 %
Energy	1,214	1,204	1	3,498	3,285	6
Industrial	1,497	1,324	13	4,274	3,922	9
Premium	1,714	1,450	18	4,880	4,313	13
<b>Total</b>	<b>\$ 5,558</b>	<b>\$ 5,050</b>	<b>10 %</b>	<b>\$ 15,997</b>	<b>\$ 14,750</b>	<b>8 %</b>

<b>Revenue Carloads</b> <i>Thousands,</i>	<i>Three Months Ended</i> <i>September 30,</i>			<i>Nine Months Ended</i> <i>September 30,</i>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Agricultural Products	285	280	2 %	849	859	(1) %
Energy	440	448	(2)	1,246	1,234	1
Industrial	458	419	9	1,321	1,249	6
Premium [a]	1,133	1,041	9	3,250	3,079	6
<b>Total</b>	<b>2,316</b>	<b>2,188</b>	<b>6 %</b>	<b>6,666</b>	<b>6,421</b>	<b>4 %</b>

<b>Average Revenue per Car</b>	<i>Three Months Ended</i> <i>September 30,</i>			<i>Nine Months Ended</i> <i>September 30,</i>		
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>2018</b>	<b>2017</b>	<b>Change</b>
Agricultural Products	\$ 3,973	\$ 3,827	4 %	\$ 3,939	\$ 3,760	5 %
Energy	2,757	2,690	2	2,807	2,663	5
Industrial	3,269	3,159	3	3,236	3,140	3
Premium	1,513	1,392	9	1,501	1,401	7
<b>Average</b>	<b>\$ 2,399</b>	<b>\$ 2,307</b>	<b>4 %</b>	<b>\$ 2,400</b>	<b>\$ 2,297</b>	<b>4 %</b>

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

**Agricultural Products** – Freight revenue from agricultural products shipments increased in the third quarter and year-to-date periods of 2018 compared to 2017 due to core pricing gains and higher fuel surcharge revenue. In the third quarter, volume also grew 2% driven by strong exports of corn and soybeans to Mexico, higher domestic demand for corn, growth in fertilizer, and higher export ethanol shipments compared to 2017. Year-to-date, volumes declined 1% largely due to lower export wheat shipments reflecting weaker U.S. competitiveness in the global market throughout 2018.

**Energy** – Freight revenue from energy shipments increased 1% in the third quarter compared to 2017 due to higher fuel surcharge revenue, mostly offset by a 2% decline in volume and negative mix of traffic. Frac sand shipments, which represented 15% of energy shipments in 2017, declined 23% in the third quarter compared to last year as regional sand supplies in the Permian displaced select shipments originating from the upper Midwest. In addition, coal and coke shipments, which represented 74% of energy shipments in 2017, declined 3% due to lower natural gas prices, a commercial contract loss, and certain UP-served facility retirements. Growth in petroleum shipments (both crude and refined) due to strong shale drilling activity partially offset the sand and coal volume declines. Year-to-date, freight revenue increased 6% driven by fuel surcharge revenue and volume growth of 1%. Strong frac sand shipments during the first half of the year and growth in petroleum shipments, partially offset by lower coal shipments, drove the year-to-date volume increase compared to 2017.

**Industrial** – Freight revenue from industrial shipments increased in the third quarter and year-to-date period of 2018 compared to 2017 due to volume growth, core pricing gains, and higher fuel surcharge revenue, partially offset by negative mix of traffic. Volume grew 9% and 6% in the third quarter and year-to-date period, respectively, compared to 2017 driven by stronger industrial production that impacted growth in industrial chemicals, construction products, and plastics. In addition, these commodities were negatively

impacted in the third quarter of 2017 due to disruptions from Hurricane Harvey. Also, metals shipments grew due to strength in domestic energy markets while lumber shipments increased due to lower inventory levels compared to 2017.

*Premium* – Freight revenue from premium shipments increased in the third quarter and year-to-date periods compared to 2017 due to higher fuel surcharge revenue, volume growth, and core pricing gains, partially offset by negative mix of traffic. Volume grew 9% and 6% in the third quarter and year-to-date periods, respectively, compared to 2017 driven by growth in international intermodal shipments and newly secured business in the second quarter of 2018. In addition, domestic intermodal shipments, including containerized automotive parts, increased as a result of tighter truck capacity, increased production at auto parts facilities, and continued truck-to-rail conversions. Consumer preferences toward larger trucks and SUVs, which require more freight cars, also contributed to the increase in third quarter and year-to-date volumes compared to 2017.

*Mexico Business* – Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business increased 15% to \$636 million in the third quarter of 2018 compared to 2017 driven by 5% volume growth, higher fuel surcharge revenue, and core pricing gains. Volume growth was realized across all commodity groups, with particular strength in corn, coal, finished vehicles, and plastics shipments. Year-to-date, freight revenue increased 9% to \$1,850 million as a result of 2% volume growth, higher fuel surcharge revenue, and core pricing gains.

## Operating Expenses

Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Compensation and benefits	\$ 1,262	\$ 1,237	2 %	\$ 3,776	\$ 3,703	2 %
Fuel	659	450	46	1,891	1,344	41
Purchased services and materials	632	615	3	1,861	1,778	5
Depreciation	547	528	4	1,636	1,573	4
Equipment and other rents	272	275	(1)	803	824	(3)
Other	287	230	25	801	709	13
<b>Total</b>	<b>\$ 3,659</b>	<b>\$ 3,335</b>	<b>10 %</b>	<b>\$ 10,768</b>	<b>\$ 9,931</b>	<b>8 %</b>

Operating expenses increased \$324 million and \$837 million in the third quarter and year-to-date periods, respectively, compared to 2017 driven by higher fuel prices, volume-related costs, network operational challenges, increased state and local taxes, depreciation, and inflation. Higher environmental costs also contributed to the increase in the third quarter of 2018 compared to 2017. In addition, the combined impact of the 2017 workforce reduction plan charge and disruptions caused by Hurricane Harvey positively impacted the year-over-year variances. Lower management and administrative wage and benefit costs resulting from the carry-over effect of the 2017 workforce reduction plan and lower locomotive and freight car lease expenses partially offset these increases in both periods compared to 2017.

*Compensation and Benefits* – Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. For both the third quarter and year-to-date periods, expenses increased 2% compared to 2017 due to volume-related costs, continued network operational challenges, increased Train, Engine and Yard (TE&Y) training expenses, and wage inflation. Lower management and administrative wage and benefit costs partially offset the increases.

*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 increased 3% and 5% in the third quarter and year-to-date periods, respectively, compared to 2017. Volume-related costs and inflationary cost pressures on transportation-related contract services incurred at our subsidiaries that broker intermodal and transload services primarily drove the increases in both periods. Higher freight car and locomotive repair expenses also contributed to the year-

to-date increase compared to 2017. Conversely, lower joint facility costs partially offset these increases in both periods versus 2017.

*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 third quarter and year-to-date periods of 2018 compared to 2017.

*Fuel* – Fuel includes locomotive fuel and fuel for highway and non-highway vehicles and heavy equipment. Locomotive diesel fuel prices, which averaged \$2.38 per gallon (including taxes and transportation costs) in the third quarter of 2018, compared to \$1.77 per gallon in the same period in 2017, increased expenses by \$163 million. In addition, fuel costs were higher as gross ton-miles increased 5% compared to the same period in 2017 while the fuel consumption rate (c-rate), computed as gallons of fuel consumed divided by gross ton-miles in thousands, increased 4% compared to the third quarter of 2017. For the nine-month period, locomotive diesel fuel prices averaged \$2.27 per gallon in 2018 compared to \$1.74 in 2017, increasing expenses by \$428 million. In addition, gross ton-miles and the fuel consumption rate both increased 4% during the year-to-date period, also driving higher fuel expense compared to 2017.

*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 1% and 3% in the third quarter and year-to-date periods, respectively, compared to 2017, driven by lower locomotive and freight car lease expenses, combined with higher equity income from certain equity-method affiliates mainly as a result of the lower federal tax rate implemented January 1, 2018. Increased car rent expense due to volume growth and slower network velocity partially offset these decreases in both periods.

*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 increased 25% in the third quarter and 13% in the nine-month period compared to 2017 driven primarily by higher state and local taxes and environmental expenses related to our operating properties. Lower personal injury expense due to our continued improvement in employee safety performance, reduced costs for destroyed equipment owned by third parties, and lower freight damage expense partially offset the year-to-date increase compared to 2017.

**Non-Operating Items**

Millions	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2018	2017	Change	2018	2017	Change
Other income	\$ 48	\$ 90	(47) %	\$ 48	\$ 212	(77) %
Interest expense	(241)	(180)	34	(630)	(531)	19
Income taxes	(483)	(789)	(39)	(1,313)	(2,106)	(38)

*Other Income* – Other income decreased in the third quarter and year-to-date periods of 2018 compared to 2017 largely as a result of a \$65 million gain on a litigation settlement for back rent and a \$57 million real estate sale gain, both recognized in the third quarter of 2017. In addition, an \$85 million expense associated with early-extinguishment of outstanding debentures and mortgage bonds recognized in the first quarter of 2018 and higher gains from real estate sales in the first quarter of 2017 also drove the year-to-date decrease.

*Interest Expense* – Interest expense increased in the third quarter of 2018 compared to 2017 due to an increase in the weighted-average debt level of \$22.6 billion in 2018 compared to \$16.0 billion in 2017, partially offset by a lower effective interest rate of 4.3% in 2018 compared to 4.5% in 2017. Year-to-date, interest expense increased due to an increased weighted-average debt level of \$19.4 billion in 2018 from \$15.6 billion in 2017, partially offset by a lower effective interest rate of 4.4% compared to 4.6%.

*Income Taxes* – Income taxes were lower in the third quarter of 2018 compared to 2017, driven by a lower federal income tax rate due to the enactment of the Tax Act on December 22, 2017. The Tax Act reduced the federal income tax rate from 35% to 21% effective January 1, 2018. In addition, our tax expense increased \$33 million in the third quarter of 2017 due to a change in the Illinois corporate income tax rate.

Our effective tax rates for the third quarter of 2018 and 2017 were 23.3% and 39.8%, respectively. For the nine-month periods of 2018 and 2017, our effective tax rates were 22.9% and 38.0%, respectively.

## OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report a number of key performance measures weekly to the AAR. We provide this data on our website at [www.up.com/investor/aar-stb\\_reports/index.htm](http://www.up.com/investor/aar-stb_reports/index.htm).

### Operating/Performance Statistics

Railroad performance measures are included in the table below:

	Three Months Ended			Nine Months Ended		
	September 30,		Change	September 30,		Change
	2018	2017		2018	2017	
Average train speed (miles per hour)	24.0	25.4	(6) %	24.5	25.5	(4) %
Average terminal dwell time (hours)	29.3	30.0	(2) %	30.6	29.6	3 %
Gross ton-miles (billions)	240.2	229.8	5 %	698.1	671.5	4 %
Revenue ton-miles (billions)	123.3	119.0	4 %	358.3	347.9	3 %
Operating ratio	61.7	61.7	- pts	63.1	62.9	0.2 pts
Employees (average)	42,323	42,056	1 %	42,057	42,127	- %

*Average Train Speed* – Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Average train speed, as reported to the AAR, decreased 6% and 4% in the third quarter and year-to-date periods, respectively, compared to 2017, largely due to continued network congestion on key routes and terminals driven, by high freight car inventory levels. Continued implementation and testing of Positive Train Control across a larger portion of our network also negatively impacted overall average train speed.

*Average Terminal Dwell Time* – Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time improves asset utilization and service. Compared to 2017, average terminal dwell time decreased 2% in the third quarter but increased 3% in the nine-month period. Network congestion on key routes and terminals, and high freight car inventory levels starting in the third quarter of 2017 drove the increase in average terminal dwell for the year-to-date period compared to 2017.

*Gross and Revenue Ton-Miles* – Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles and revenue ton-miles increased 5% and 4%, respectively, during the third quarter of 2018 compared to 2017, driven by a 6% increase in carloadings. Changes in commodity mix drove the variances in year-over-year increases between gross ton-miles, revenue ton-miles and carloads. Year-to-date, gross ton-miles and revenue ton-miles increased 4% and 3% respectively compared to 2017, driven by a 4% increase in carloadings.

*Operating Ratio* – Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our third quarter operating ratio of 61.7% was flat compared to 2017 mainly driven by core pricing gains and volume growth leverage, which were offset by excess network costs, other cost hurdles, higher fuel prices, and inflation. Year-to-date, our operating ratio was 63.1%, increasing 0.2 points compared to 2017.

*Employees* – Employee levels increased 1% in the third quarter of 2018 compared to 2017 driven by a 6% increase in volume levels and an increase in TE&Y employees in training. A smaller capital workforce and fewer management and administrative personnel largely offset the increases. Year-to-date, employee levels were flat compared to 2017 as volumes grew 4%.

## Adjusted Debt / Adjusted EBITDA

<i>Millions, Except Ratios for the Trailing Twelve Months Ended [a]</i>	<b>Sep. 30, 2018</b>	<i>Dec. 31, 2017</i>
Net income	\$ 11,690	\$ 10,712
Less:		
Other income	81	245
Add:		
Income tax expense/(benefit)	(3,873)	(3,080)
Depreciation	2,168	2,105
Interest expense	818	719
EBITDA	\$ 10,722	\$ 10,211
Interest on present value of operating leases	85	98
Adjusted EBITDA (a)	\$ 10,807	\$ 10,309
Debt	\$ 22,411	\$ 16,944
Net present value of operating leases	1,929	2,140
Unfunded pension and OPEB, net of taxes of \$137 and \$238	452	396
Adjusted debt (b)	\$ 24,792	\$ 19,480
Adjusted debt / Adjusted EBITDA (b/a)	2.3	1.9

[a] The trailing twelve month income statement information ended September 30, 2018 is recalculated by taking the twelve months ended December 31, 2017, subtracting the nine months ended September 30, 2017, and adding the nine months ended September 30, 2018.

Adjusted debt to Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and interest on present value of operating leases) 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. Operating leases were discounted using 4.4% at September 30, 2018, and 4.6% at December 31, 2017. 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.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial Condition

#### Cash Flows

<i>Millions, for the Nine Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Cash provided by operating activities	\$ 6,374	\$ 5,398
Cash used in investing activities	(2,434)	(2,260)
Cash used in financing activities	(3,405)	(2,568)
Net change in cash and cash equivalents	\$ 535	\$ 570

#### Operating Activities

Cash provided by operating activities increased in the first nine months of 2018 compared to the same period of 2017 due to higher income from core operations and a lower federal tax payment reflecting the lower corporate tax rate of 21% implemented January 1, 2018. Payments made in 2018 for past wages resulting from national labor negotiations ratified in late 2017 partially offset these decreases.

#### Investing Activities

Increased capital investments and lower proceeds from asset sales drove higher cash used in investing activities in the first nine months of 2018 compared to the same period in 2017.



The table below details cash capital investments:

<i>Millions,</i>			
<i>for the Nine Months Ended September 30,</i>			
	<b>2018</b>		<b>2017</b>
Rail and other track material	\$	461	\$ 482
Ties		345	371
Ballast		159	178
Other [a]		348	342
<b>Total road infrastructure replacements</b>		<b>1,313</b>	<b>1,373</b>
Line expansion and other capacity projects		185	57
Commercial facilities		145	119
<b>Total capacity and commercial facilities</b>		<b>330</b>	<b>176</b>
Locomotives and freight cars [b]		509	430
Positive train control		121	262
Technology and other		155	138
<b>Total cash capital investments</b>	\$	<b>2,428</b>	\$ 2,379

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

[b] Locomotives and freight cars include lease buyouts of \$228 million in 2018 and \$173 million in 2017.

### Capital Plan

We expect our 2018 capital expenditures to be approximately \$3.2 billion, which is roughly \$100 million less than previously expected. Timing of infrastructure renewal projects and work equipment receipts are the primary drivers of the reduced expenditure. Further revisions may occur 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 \$837 million in the first nine months of 2018 compared to the same period of 2017 driven by a \$4.1 billion increase in shares repurchased and a \$256 million increase in dividends paid, which was partially offset by a \$3.6 billion net increase in additional debt.

See Note 15 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):

<i>Millions,</i>			
<i>for the Nine Months Ended September 30,</i>			
	<b>2018</b>		<b>2017</b>
Cash provided by operating activities	\$	6,374	\$ 5,398
Cash used in investing activities		(2,434)	(2,260)
Dividends paid		(1,716)	(1,460)
<b>Free cash flow</b>	\$	<b>2,224</b>	\$ 1,678



**Share Repurchase Programs**

Effective January 1, 2017, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2020, replacing our previous repurchase program. As of September 30, 2018, we repurchased a total of \$29.5 billion of our common stock since commencement of our repurchase programs in 2007. The table below represents shares repurchased under this repurchase program during 2017 and 2018.

	Number of Shares Purchased		Average Price Paid	
	2018	2017	2018	2017
First quarter	9,259,004	7,531,300	\$ 132.84	\$ 106.55
Second quarter [a]	33,229,992	7,788,283	142.74	109.10
Third quarter	2,239,405	11,801,755	151.94	106.69
Total	44,728,401	27,121,338	\$ 141.15	\$ 107.34
Remaining number of shares that may be repurchased under current authority				38,918,751

[a] Includes 19,870,292 shares repurchased in June 2018 under ASRs.

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

**Accelerated Share Repurchase Programs** – On June 14, 2018, the Company established accelerated share repurchase programs (ASRs) with two financial institutions to repurchase shares of our common stock. On June 15, 2018, the Company received 19,870,292 shares of its common stock repurchased under the ASRs for an aggregate of \$3.6 billion. When the shares were received, the exchange was accounted for as an equity transaction with \$2.9 billion of the aggregate amount allocated to treasury stock and the remaining \$0.7 billion allocated to paid-in-surplus. The Company reflected the shares received as a repurchase of common stock in the weighted average common shares outstanding calculation for basic and diluted earnings per share.

Under these ASRs, we paid a specified amount to the financial institutions and received an initial delivery of shares. This delivery of shares represents the initial and likely minimum number of shares that we may receive under the ASRs. The final number of shares to be repurchased under the ASRs will be based on the volume weighted average stock 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 October 25, 2018, half of the remaining balance was settled through receipt of 2,220,380 additional shares from one of the financial institutions. The final settlement with the other financial institution is expected to be completed prior to the end of the fourth quarter of 2018.

**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 September 30, 2018:

<b>Contractual Obligations</b> Millions	Total	Payments Due by Dec. 31,						
		Oct. 1 through Dec. 31, 2018	2019	2020	2021	2022	After 2022	Other
Debt [a]	\$ 38,393	\$ 495	\$ 1,901	\$ 1,679	\$ 1,926	\$ 1,556	\$ 30,836	\$ -
Operating leases [b]	2,344	53	367	303	265	240	1,116	-
Capital lease obligations [c]	932	15	152	160	164	147	294	-
Purchase obligations [d]	3,850	785	1,725	892	258	57	101	32
Other postretirement benefits [e]	442	13	49	49	48	48	235	-
Income tax contingencies [f]	177	6	85	-	-	-	-	86
<b>Total contractual obligations</b>	<b>\$ 46,138</b>	<b>\$ 1,367</b>	<b>\$ 4,279</b>	<b>\$ 3,083</b>	<b>\$ 2,661</b>	<b>\$ 2,048</b>	<b>\$ 32,582</b>	<b>\$ 118</b>

[a] Excludes capital lease obligations of \$782 million, as well as unamortized discount and deferred issuance costs of (\$826) million. Includes an interest component of \$15,938 million.

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

[c] Represents total obligations, including interest component of \$150 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 September 30, 2018. For amounts where the year of settlement is uncertain, they are included in the Other column.

<b>Other Commercial Commitments</b> Millions	Total	Amount of Commitment Expiration by Dec. 31,					
		Oct. 1 through Dec. 31, 2018	2019	2020	2021	2022	After 2022
Credit facilities [a]	\$ 2,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000
Receivables securitization facility [b]	650	-	650	-	-	-	-
Guarantees [c]	26	4	7	5	5	5	-
Standby letters of credit [d]	19	7	12	-	-	-	-
<b>Total commercial commitments</b>	<b>\$ 2,695</b>	<b>\$ 11</b>	<b>\$ 669</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ 2,000</b>

[a] None of the credit facility was used as of September 30, 2018.

[b] \$400 million of the receivables securitization facility was utilized as of September 30, 2018, which is accounted for as debt. The full program matures in July 2019.

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

[d] None of the letters of credit were drawn upon as of September 30, 2018.

## 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.

**Labor Agreements** – UPRR's collective bargaining agreements remain in effect until new agreements are ratified or until the Railway Labor Act's procedures are exhausted. Those procedures include mediation and the possibility of arbitration, Presidential Emergency Boards and Congressional intervention. UPRR has concluded agreements with all its rail unions. Unions representing nearly 75% of our agreement work force ratified the agreements by significant margins, thereby creating a pattern agreement. Unions representing the remaining 25% of our agreement work force pursued final and binding arbitration challenging various provisions of the pattern agreements. The arbitrators upheld the validity of the pattern agreement in all respects, and as a result, the new agreement terms apply to all our union-represented employees. Unions that deviated from the established pattern agreement and sought arbitration were held accountable for the unreasonable delay. Arbitrators uniformly required those unions' members to pay the employee contribution to health and welfare benefit premium from the date voluntary agreement should have been reached.

**Subsequent Event** – On October 23, 2018, we announced the elimination of one operating region and five service units as part of a broader effort to more closely align operating resources with the Company's long-term strategic initiatives. In addition, the Company announced the reduction of approximately 475 employees and 200 contractors that is expected to be substantially completed in the fourth quarter of 2018. While no further restructuring plans have been approved, management continues to analyze the Company's cost structure and evaluate other restructuring and cost reduction opportunities that will further align with the Company's long-term strategic priorities.

## 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 2017 Annual Report on Form 10-K, filed February 9, 2018, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements, and this report, including this Item 2, should be read in conjunction with these Risk Factors. To the extent circumstances require or we deem it otherwise necessary, we will update or amend these risk factors in a Form 10-Q or Form 8-K. Information regarding new risk factors or material changes to our risk factors, if any, is set forth in Item 1A of Part II of this report. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications

of the times that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

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

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

There were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2017 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**

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

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Environmental, Item 7 of our 2017 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, 2017.

As we reported in our Current Report on Form 8-K, filed on June 10, 2011, the Railroad received a complaint filed in the U.S. District Court for the District of Columbia on June 7, 2011, by Oxbow Carbon & Minerals LLC and related entities (Oxbow). The parties are currently conducting discovery in this matter. 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, 2017.

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 2017 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 third quarter of 2018:

<i>Period</i>	<i>Total Number of Shares Purchased [a]</i>	<i>Average Price Paid Per Share</i>	<i>Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program</i>	<i>Maximum Number of Shares That May Be Purchased Under Current Authority [b]</i>
Jul. 1 through Jul. 31	344,165	\$ 145.51	308,256	40,849,900
Aug. 1 through Aug. 31	1,290,048	150.02	1,261,149	39,588,751
Sep. 1 through Sep. 30	694,342	158.79	670,000	38,918,751
Total	2,328,555	\$ 151.97	2,239,405	N/A

[a] Total number of shares purchased during the quarter includes 89,150 shares delivered or attested to UPC by employees to pay stock option exercise prices, satisfy excess tax withholding obligations for stock option exercises or vesting of retention units, and pay withholding obligations for vesting of retention shares.

[b] Effective January 1, 2017, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2020, 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

- 12(a)            [Ratio of Earnings to Fixed Charges for the Three Months Ended September 30, 2018 and 2017.](#)
- 12(b)            [Ratio of Earnings to Fixed Charges for the Nine Months Ended September 30, 2018 and 2017.](#)
- 31(a)            [Certifications Pursuant to Rule 13a-14\(a\), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz.](#)
- 31(b)            [Certifications Pursuant to Rule 13a-14\(a\), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert M. Knight, Jr.](#)
- 32                [Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz and Robert M. Knight, Jr.](#)
- 101              eXtensible Business Reporting Language (XBRL) documents submitted electronically: 101.INS (XBRL Instance Document), 101.SCH (XBRL Taxonomy Extension Schema Document), 101.CAL (XBRL Calculation Linkbase Document), 101.LAB (XBRL Taxonomy Label Linkbase Document), 101.DEF (XBRL Taxonomy Definition Linkbase Document) and 101.PRE (XBRL Taxonomy Presentation Linkbase Document). The following financial and related information from Union Pacific Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2018 (filed with the SEC on October 25, 2018), is formatted in XBRL and submitted electronically herewith: (i) Condensed Consolidated Statements of Income for the periods ended September 30, 2018 and 2017, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended September 30, 2018 and 2017, (iii) Condensed Consolidated Statements of Financial Position at September 30, 2018 and December 31, 2017, (iv) Condensed Consolidated Statements of Cash Flows for the periods ended September 30, 2018 and 2017, (v) Condensed Consolidated Statements of Changes in Common Shareholders' Equity for the periods ended September 30, 2018 and 2017, 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.](#)

**SIGNATURES**

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

Dated: October 25, 2018

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)



**RATIO OF EARNINGS TO FIXED CHARGES (Unaudited)**  
*Union Pacific Corporation and Subsidiary Companies*

<i>Millions, Except for Ratios</i>		
<i>for the Three Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
Fixed charges:		
Interest expense including amortization of debt discount	\$ 241	\$ 180
Portion of rentals representing an interest factor	19	19
Total fixed charges	\$ 260	\$ 199
Earnings available for fixed charges:		
Net income	\$ 1,593	\$ 1,194
Equity earnings net of distributions	(16)	(38)
Income taxes	483	789
Fixed charges	260	199
Earnings available for fixed charges	\$ 2,320	\$ 2,144
Ratio of earnings to fixed charges	8.9	10.8

**RATIO OF EARNINGS TO FIXED CHARGES (Unaudited)**  
*Union Pacific Corporation and Subsidiary Companies*

<i>Millions, Except for Ratios</i>		
<i>for the Nine Months Ended September 30,</i>	<b>2018</b>	<b>2017</b>
<b>Fixed charges:</b>		
Interest expense including amortization of debt discount	\$ 630	\$ 531
Portion of rentals representing an interest factor	52	57
<b>Total fixed charges</b>	<b>\$ 682</b>	<b>\$ 588</b>
<b>Earnings available for fixed charges:</b>		
Net income	\$ 4,412	\$ 3,434
Equity earnings net of distributions	(82)	(54)
Income taxes	1,313	2,106
Fixed charges	682	588
<b>Earnings available for fixed charges</b>	<b>\$ 6,325</b>	<b>\$ 6,074</b>
<b>Ratio of earnings to fixed charges</b>	<b>9.3</b>	<b>10.3</b>

**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 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: October 25, 2018

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

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**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 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: October 25, 2018

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

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**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 September 30, 2018, 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

October 25, 2018

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 September 30, 2018, 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

October 25, 2018

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.

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