

UNION PACIFIC CORP  
Form 10-Q  
April 21, 2016  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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

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(Exact name of registrant as specified in its charter)

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

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant's telephone number, including area code)

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

Yes      No

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

Yes      No

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

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

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

Yes      No

As of April 15, 2016, there were 841,034,308 shares of the Registrant's Common Stock outstanding.

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AND SUBSIDIARY COMPANIES

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## Condensed Consolidated Statements of Income (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

| for the Three Months Ended March 31,        | 2016     | 2015     |
|---------------------------------------------|----------|----------|
| Operating revenues:                         |          |          |
| Freight revenues                            | \$ 4,502 | \$ 5,251 |
| Other revenues                              | 327      | 363      |
| Total operating revenues                    | 4,829    | 5,614    |
| Operating expenses:                         |          |          |
| Compensation and benefits                   | 1,213    | 1,369    |
| Purchased services and materials            | 569      | 643      |
| Depreciation                                | 502      | 491      |
| Fuel                                        | 320      | 564      |
| Equipment and other rents                   | 289      | 311      |
| Other                                       | 249      | 259      |
| Total operating expenses                    | 3,142    | 3,637    |
| Operating income                            | 1,687    | 1,977    |
| Other income (Note 6)                       | 46       | 26       |
| Interest expense                            | (167)    | (148)    |
| Income before income taxes                  | 1,566    | 1,855    |
| Income taxes                                | (587)    | (704)    |
| Net income                                  | \$ 979   | \$ 1,151 |
| Share and Per Share (Note 8):               |          |          |
| Earnings per share - basic                  | \$ 1.16  | \$ 1.31  |
| Earnings per share - diluted                | \$ 1.16  | \$ 1.30  |
| Weighted average number of shares - basic   | 844.0    | 879.3    |
| Weighted average number of shares - diluted | 846.7    | 882.8    |
| Dividends declared per share                | \$ 0.55  | \$ 0.55  |

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

|                                                   |        |          |
|---------------------------------------------------|--------|----------|
| Millions,<br>for the Three Months Ended March 31, | 2016   | 2015     |
| Net income                                        | \$ 979 | \$ 1,151 |
| Other comprehensive income/(loss):                |        |          |
| Defined benefit plans                             | 8      | 12       |
| Foreign currency translation                      | (21)   | (20)     |
| Total other comprehensive income/(loss) [a]       | (13)   | (8)      |
| Comprehensive income                              | \$ 966 | \$ 1,143 |

[a]Net of deferred taxes of \$5 million and \$3 million during the three months ended March 31, 2016, and 2015, respectively.

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

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## Condensed Consolidated Statements of Financial Position (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

| Millions, Except Share and Per Share Amounts                                                                                                                   | March 31,<br>2016 | December<br>31,<br>2015 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------|
| <b>Assets</b>                                                                                                                                                  |                   |                         |
| Current assets:                                                                                                                                                |                   |                         |
| Cash and cash equivalents                                                                                                                                      | \$ 2,673          | \$ 1,391                |
| Accounts receivable, net (Note 10)                                                                                                                             | 1,355             | 1,356                   |
| Materials and supplies                                                                                                                                         | 716               | 736                     |
| Other current assets                                                                                                                                           | 339               | 647                     |
| Total current assets                                                                                                                                           | 5,083             | 4,130                   |
| Investments                                                                                                                                                    | 1,404             | 1,410                   |
| Net properties (Note 11)                                                                                                                                       | 49,071            | 48,866                  |
| Other assets                                                                                                                                                   | 214               | 194                     |
| Total assets                                                                                                                                                   | \$ 55,772         | \$ 54,600               |
| <b>Liabilities and Common Shareholders' Equity</b>                                                                                                             |                   |                         |
| Current liabilities:                                                                                                                                           |                   |                         |
| Accounts payable and other current liabilities (Note 12)                                                                                                       | \$ 2,885          | \$ 2,612                |
| Debt due within one year (Note 14)                                                                                                                             | 402               | 594                     |
| Total current liabilities                                                                                                                                      | 3,287             | 3,206                   |
| Debt due after one year (Note 14)                                                                                                                              | 14,791            | 13,607                  |
| Deferred income taxes                                                                                                                                          | 15,404            | 15,241                  |
| Other long-term liabilities                                                                                                                                    | 1,815             | 1,844                   |
| Commitments and contingencies (Note 16)                                                                                                                        |                   |                         |
| Total liabilities                                                                                                                                              | 35,297            | 33,898                  |
| Common shareholders' equity:                                                                                                                                   |                   |                         |
| Common shares, \$2.50 par value, 1,400,000,000 authorized;<br>1,111,037,931 and 1,110,426,354 issued; 840,938,941 and 849,211,436<br>outstanding, respectively | 2,778             | 2,776                   |
| Paid-in-surplus                                                                                                                                                | 4,381             | 4,417                   |
| Retained earnings                                                                                                                                              | 30,747            | 30,233                  |
| Treasury stock                                                                                                                                                 | (16,223)          | (15,529)                |
| Accumulated other comprehensive loss (Note 9)                                                                                                                  | (1,208)           | (1,195)                 |
| Total common shareholders' equity                                                                                                                              | 20,475            | 20,702                  |
| Total liabilities and common shareholders' equity                                                                                                              | \$ 55,772         | \$ 54,600               |

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



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## Condensed Consolidated Statements of Cash Flows (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

|                                                                               |          |          |
|-------------------------------------------------------------------------------|----------|----------|
| Millions,<br>for the Three Months Ended March 31,                             | 2016     | 2015     |
| Operating Activities                                                          |          |          |
| Net income                                                                    | \$ 979   | \$ 1,151 |
| Adjustments to reconcile net income to cash provided by operating activities: |          |          |
| Depreciation                                                                  | 502      | 491      |
| Deferred and other income taxes                                               | 169      | 108      |
| Net gain on non-operating asset dispositions (Note 6)                         | (25)     | (7)      |
| Other operating activities, net                                               | (49)     | 39       |
| Changes in current assets and liabilities:                                    |          |          |
| Accounts receivable, net                                                      | 1        | 47       |
| Materials and supplies                                                        | 20       | (32)     |
| Other current assets                                                          | (37)     | (75)     |
| Accounts payable and other current liabilities                                | (58)     | (155)    |
| Income and other taxes                                                        | 671      | 497      |
| Cash provided by operating activities                                         | 2,173    | 2,064    |
| Investing Activities                                                          |          |          |
| Capital investments                                                           | (687)    | (1,101)  |
| Proceeds from asset sales                                                     | 29       | 32       |
| Other investing activities, net                                               | (14)     | (73)     |
| Cash used in investing activities                                             | (672)    | (1,142)  |
| Financing Activities                                                          |          |          |
| Debt issued (Note 14)                                                         | 1,278    | 1,146    |
| Common share repurchases (Note 17)                                            | (706)    | (792)    |
| Dividends paid                                                                | (465)    | (922)    |
| Debt repaid                                                                   | (282)    | (333)    |
| Other financing activities, net                                               | (44)     | (20)     |
| Cash used in financing activities                                             | (219)    | (921)    |
| Net change in cash and cash equivalents                                       | 1,282    | 1        |
| Cash and cash equivalents at beginning of year                                | 1,391    | 1,586    |
| Cash and cash equivalents at end of period                                    | \$ 2,673 | \$ 1,587 |
| Supplemental Cash Flow Information                                            |          |          |
| Non-cash investing and financing activities:                                  |          |          |
| Capital investments accrued but not yet paid                                  | \$ 100   | \$ 146   |
| Common shares repurchased but not yet paid                                    | 7        | 15       |
| Cash received from / (paid for):                                              |          |          |
| Income taxes, net of refunds                                                  | \$ 282   | \$ (47)  |

|                                      |       |       |
|--------------------------------------|-------|-------|
| Interest, net of amounts capitalized | (215) | (192) |
|--------------------------------------|-------|-------|

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

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

## Union Pacific Corporation and Subsidiary Companies

| Millions                                                                   | Common<br>Shares | Treasury<br>Shares | Common<br>Shares | Paid-in-Surplus | Retained<br>Earnings | Treasury<br>Stock | AOCI<br>[a] | Total     |
|----------------------------------------------------------------------------|------------------|--------------------|------------------|-----------------|----------------------|-------------------|-------------|-----------|
| Balance at<br>January 1, 2015                                              | 1,110.1          | (226.7)            | \$ 2,775         | \$ 4,321        | \$ 27,367            | \$ (12,064)       | \$ (1,210)  | \$ 21,189 |
| Net income                                                                 |                  |                    | -                | -               | 1,151                | -                 | -           | 1,151     |
| Other comp. loss                                                           |                  |                    | -                | -               | -                    | -                 | (8)         | (8)       |
| Conversion,<br>stock option<br>exercises, and<br>forfeitures, and<br>other | 0.4              | 0.5                | 1                | 30              | -                    | (15)              | -           | 16        |
| Share<br>repurchases<br>(Note 17)                                          | -                | (6.9)              | -                | -               | -                    | (807)             | -           | (807)     |
| Cash dividends<br>declared<br>(\$0.55 per<br>share)                        | -                | -                  | -                | -               | (484)                | -                 | -           | (484)     |
| Balance at<br>March 31, 2015                                               | 1,110.5          | (233.1)            | \$ 2,776         | \$ 4,351        | \$ 28,034            | \$ (12,886)       | \$ (1,218)  | \$ 21,057 |
| Balance at<br>January 1, 2016                                              | 1,110.4          | (261.2)            | \$ 2,776         | \$ 4,417        | \$ 30,233            | \$ (15,529)       | \$ (1,195)  | \$ 20,702 |
| Net income                                                                 |                  |                    | -                | -               | 979                  | -                 | -           | 979       |
| Other comp. loss                                                           |                  |                    | -                | -               | -                    | -                 | (13)        | (13)      |
| Conversion,<br>stock option<br>exercises, and<br>forfeitures, and<br>other | 0.6              | 0.4                | 2                | (36)            | -                    | 19                | -           | (15)      |
| Share<br>repurchases<br>(Note 17)                                          | -                | (9.3)              | -                | -               | -                    | (713)             | -           | (713)     |
| Cash dividends<br>declared<br>(\$0.55 per<br>share)                        | -                | -                  | -                | -               | (465)                | -                 | -           | (465)     |

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|                |         |         |          |          |           |             |            |           |
|----------------|---------|---------|----------|----------|-----------|-------------|------------|-----------|
| Balance at     | 1,111.0 | (270.1) | \$ 2,778 | \$ 4,381 | \$ 30,747 | \$ (16,223) | \$ (1,208) | \$ 20,475 |
| March 31, 2016 |         |         |          |          |           |             |            |           |

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

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

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UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. Basis of Presentation

Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, this Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2015 Annual Report on Form 10-K. Our Consolidated Statement of Financial Position at December 31, 2015, is derived from audited financial statements. The results of operations for the three months ended March 31, 2016, are not necessarily indicative of the results for the entire year ending December 31, 2016.

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

2. Accounting Pronouncements

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

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

In 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. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. ASU 2016-01 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

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 is currently evaluating the impact of this standard on our consolidated financial position, results of operations, and cash flows.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09) Compensation - Stock Compensation (Topic 718), which simplifies the accounting for income taxes related to stock-based compensation. We elected to early adopt ASU 2016-09 in the first quarter of 2016 with an effective date of January 1, 2016. As a result of the adoption, we recognized excess tax benefits of \$10 million in the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows. Prior periods have not been adjusted.

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## 3. Operations and Segmentation

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

|                                      |          |          |
|--------------------------------------|----------|----------|
| Millions,                            |          |          |
| for the Three Months Ended March 31, | 2016     | 2015     |
| Agricultural Products                | \$ 882   | \$ 939   |
| Automotive                           | 510      | 516      |
| Chemicals                            | 878      | 897      |
| Coal                                 | 519      | 915      |
| Industrial Products                  | 834      | 1,017    |
| Intermodal                           | 879      | 967      |
| Total freight revenues               | \$ 4,502 | \$ 5,251 |
| Other revenues                       | 327      | 363      |
| Total operating revenues             | \$ 4,829 | \$ 5,614 |

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported by us are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are freight revenues from our Mexico business which amounted to \$535 million and \$544 million, respectively, for the three months ended March 31, 2016, and March 31, 2015.

## 4. Stock-Based Compensation

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

|                                                    |       |       |
|----------------------------------------------------|-------|-------|
| Millions,<br>for the Three Months Ended March 31,  | 2016  | 2015  |
| Stock-based compensation, before tax:              |       |       |
| Stock options                                      | \$ 4  | \$ 4  |
| Retention awards                                   | 13    | 24    |
| Total stock-based compensation, before tax         | \$ 17 | \$ 28 |
| Excess tax benefits from equity compensation plans | \$ 10 | \$ 53 |

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

|                                                           |          |          |
|-----------------------------------------------------------|----------|----------|
| Weighted-Average Assumptions                              | 2016     | 2015     |
| Risk-free interest rate                                   | 1.3%     | 1.3%     |
| Dividend yield                                            | 2.9%     | 1.8%     |
| Expected life (years)                                     | 5.1      | 5.1      |
| Volatility                                                | 23.2%    | 23.4%    |
| Weighted-average grant-date fair value of options granted | \$ 11.36 | \$ 22.30 |

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.

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A summary of stock option activity during the three months ended March 31, 2016, is presented below:

|                                              | Options (thous.) | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual Term | Intrinsic<br>Value<br>(millions) |
|----------------------------------------------|------------------|------------------------------------|---------------------------------------------------|----------------------------------|
| Outstanding at January 1, 2016               | 5,571            | \$ 66.69                           | 5.4 yrs.                                          | \$ 114                           |
| Granted                                      | 1,672            | 75.52                              | N/A                                               | N/A                              |
| Exercised                                    | (206)            | 26.60                              | N/A                                               | N/A                              |
| Forfeited or expired                         | (66)             | 103.69                             | N/A                                               | N/A                              |
| Outstanding at March 31, 2016                | 6,971            | \$ 69.64                           | 6.3 yrs.                                          | \$ 115                           |
| Vested or expected to vest at March 31, 2016 | 6,894            | \$ 69.42                           | 6.3 yrs.                                          | \$ 115                           |
| Options exercisable at March 31, 2016        | 4,414            | \$ 59.08                           | 4.7 yrs.                                          | \$ 108                           |

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at March 31, 2016, are subject to performance or market-based vesting conditions.

At March 31, 2016, there was \$31 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 2.0 years. Additional information regarding stock option exercises appears in the table below:

|                                                         |       |       |
|---------------------------------------------------------|-------|-------|
| Millions,                                               |       |       |
| for the Three Months Ended March 31,                    | 2016  | 2015  |
| Intrinsic value of stock options exercised              | \$ 10 | \$ 32 |
| Cash received from option exercises                     | 9     | 14    |
| Treasury shares repurchased for employee payroll taxes  | (3)   | (7)   |
| Tax benefit realized from option exercises              | 4     | 12    |
| Aggregate grant-date fair value of stock options vested | 19    | 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 three months ended March 31, 2016, were as follows:

|                              | Shares | Weighted-Average<br>Grant-Date Fair<br>(thous.) Value |
|------------------------------|--------|-------------------------------------------------------|
| Nonvested at January 1, 2016 | 2,900  | \$ 80.01                                              |
| Granted                      | 819    | 75.52                                                 |
| Vested                       | (778)  | 57.28                                                 |
| Forfeited                    | (74)   | 91.72                                                 |
| Nonvested at March 31, 2016  | 2,867  | \$ 84.59                                              |

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At March 31, 2016, there was \$127 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.3 years.

Performance Retention Awards – In February 2016, our Board of Directors approved performance stock unit grants. The basic terms of these performance stock units are identical to those granted in February 2014 and February 2015, except for different annual return on invested capital (ROIC) performance targets and the addition of 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, and for the 2016 plan, modified for the relative

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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 2016 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 2016 grant were as follows:

|                                          |         |
|------------------------------------------|---------|
|                                          | 2016    |
| Dividend per share per quarter           | \$ 0.55 |
| Risk-free interest rate at date of grant | 0.9%    |

Changes in our performance retention awards during the three months ended March 31, 2016, were as follows:

|                              | Shares | Weighted-Average<br>Grant-Date Fair<br>(thous.) Value |
|------------------------------|--------|-------------------------------------------------------|
| Nonvested at January 1, 2016 | 1,255  | \$ 82.98                                              |
| Granted                      | 503    | 70.09                                                 |
| Vested                       | (530)  | 62.57                                                 |
| Forfeited                    | (47)   | 91.80                                                 |
| Nonvested at March 31, 2016  | 1,181  | \$ 86.30                                              |

At March 31, 2016, there was \$37 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 2.0 years. This expense is subject to achievement of the performance measures established for the performance stock unit grants.

## 5. Retirement Plans

### Pension and Other Postretirement Benefits

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

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

#### Expense

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

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

| Millions                       | Pension |       | OPEB |      |
|--------------------------------|---------|-------|------|------|
|                                | 2016    | 2015  | 2016 | 2015 |
| Service cost                   | \$ 22   | \$ 24 | \$ 1 | \$ 1 |
| Interest cost                  | 35      | 40    | 3    | 3    |
| Expected return on plan assets | (67)    | (64)  | -    | -    |
| Amortization of:               |         |       |      |      |
| Prior service credit           | -       | -     | (2)  | (2)  |
| Actuarial loss                 | 20      | 26    | 2    | 3    |
| Net periodic pension cost      | \$ 10   | \$ 26 | \$ 4 | \$ 5 |

## Cash Contributions

For the three months ended March 31, 2016, we made \$10 million of voluntary cash contributions to the qualified pension plan. Any additional contributions made during 2016 will be based on cash generated from operations and financial market considerations. Our policy with respect to funding the qualified plans is to fund at least the minimum required by law and not more than the maximum amount deductible for tax purposes. At March 31, 2016, we do not have minimum cash funding requirements for 2016.

## 6. Other Income

Other income included the following:

|                                                  |       |      |
|--------------------------------------------------|-------|------|
| Millions,                                        |       |      |
| for the Three Months Ended March 31,             | 2016  | 2015 |
| Net gain on non-operating asset dispositions [a] | \$ 25 | \$ 7 |
| Rental income                                    | 25    | 24   |
| Interest income                                  | 2     | 1    |
| Non-operating environmental costs and other      | (6)   | (6)  |

|       |       |       |
|-------|-------|-------|
| Total | \$ 46 | \$ 26 |
|-------|-------|-------|

[a] 2016 includes \$17 million related to a real estate sale.

## 7. Income Taxes

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

Several state tax authorities are examining our state income tax returns for years 2006 through 2012.

At March 31, 2016, we had a net liability for unrecognized tax benefits of \$95 million.

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## 8. Earnings Per Share

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

|                                                                             |         |          |
|-----------------------------------------------------------------------------|---------|----------|
| Millions, Except Per Share Amounts,<br>for the Three Months Ended March 31, | 2016    | 2015     |
| Net income                                                                  | \$ 979  | \$ 1,151 |
| Weighted-average number of shares outstanding:                              |         |          |
| Basic                                                                       | 844.0   | 879.3    |
| Dilutive effect of stock options                                            | 1.3     | 1.8      |
| Dilutive effect of retention shares and units                               | 1.4     | 1.7      |
| Diluted                                                                     | 846.7   | 882.8    |
| Earnings per share – basic                                                  | \$ 1.16 | \$ 1.31  |
| Earnings per share – diluted                                                | \$ 1.16 | \$ 1.30  |
| Stock options excluded as their inclusion would be anti-dilutive            | 3.0     | 0.6      |

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

Reclassifications out of accumulated other comprehensive income/(loss) for the three months ended March 31, 2016, and 2015, were as follows (net of tax):

| Millions                                                                              | Defined<br>benefit<br>plans | Foreign<br>currency<br>translation | Total      |
|---------------------------------------------------------------------------------------|-----------------------------|------------------------------------|------------|
| Balance at January 1, 2016                                                            | \$ (1,103)                  | \$ (92)                            | \$ (1,195) |
| Other comprehensive income/(loss) before reclassifications                            | (5)                         | (21)                               | (26)       |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a]           | 13                          | -                                  | 13         |
| Net quarter-to-date other comprehensive income/(loss),<br>net of taxes of \$5 million | 8                           | (21)                               | (13)       |
| Balance at March 31, 2016                                                             | \$ (1,095)                  | \$ (113)                           | \$ (1,208) |
| Balance at January 1, 2015                                                            | \$ (1,161)                  | \$ (49)                            | \$ (1,210) |
| Other comprehensive income/(loss) before reclassifications                            | (4)                         | (20)                               | (24)       |
| Amounts reclassified from accumulated other comprehensive income/(loss) [a]           | 16                          | -                                  | 16         |
| Net quarter-to-date other comprehensive income/(loss),<br>net of taxes of \$3 million | 12                          | (20)                               | (8)        |

|                           |            |         |            |
|---------------------------|------------|---------|------------|
| Balance at March 31, 2015 | \$ (1,149) | \$ (69) | \$ (1,218) |
|---------------------------|------------|---------|------------|

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

#### 10. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, credit worthiness of customers, and current economic conditions. At March 31, 2016, and December 31, 2015, our accounts receivable were reduced by \$8 million and \$5 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At March 31, 2016, and December 31, 2015, receivables classified as other assets were reduced by allowances of \$12 million and \$11 million, respectively.

Receivables Securitization Facility – The Railroad maintains a \$650 million, 3-year receivables securitization facility maturing in July 2017 under which it sells most of its eligible third-party receivables

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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 facility was \$400 million at both March 31, 2016, and December 31, 2015. The facility was supported by \$1 billion and \$0.9 billion of accounts receivable as collateral at March 31, 2016, and December 31, 2015, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

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

The costs of the receivables securitization facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$2 million and \$1 million for the three months ended March 31, 2016, and 2015, respectively.

## 11. Properties

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

| Millions, Except Estimated Useful Life<br>As of March 31, 2016 | Cost     | Accumulated<br>Depreciation | Net Book<br>Value | Estimated<br>Useful Life |
|----------------------------------------------------------------|----------|-----------------------------|-------------------|--------------------------|
| Land                                                           | \$ 5,203 | \$ N/A                      | \$ 5,203          | N/A                      |
| Road:                                                          |          |                             |                   |                          |
| Rail and other track material                                  | 15,390   | 5,560                       | 9,830             | 40                       |
| Ties                                                           | 9,547    | 2,642                       | 6,905             | 33                       |
| Ballast                                                        | 5,073    | 1,375                       | 3,698             | 34                       |

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|                          |           |           |           |     |
|--------------------------|-----------|-----------|-----------|-----|
| Other roadway [a]        | 17,540    | 3,090     | 14,450    | 47  |
| Total road               | 47,550    | 12,667    | 34,883    | N/A |
| Equipment:               |           |           |           |     |
| Locomotives              | 9,006     | 3,732     | 5,274     | 20  |
| Freight cars             | 2,219     | 966       | 1,253     | 24  |
| Work equipment and other | 900       | 203       | 697       | 19  |
| Total equipment          | 12,125    | 4,901     | 7,224     | N/A |
| Technology and other     | 950       | 375       | 575       | 11  |
| Construction in progress | 1,186     | -         | 1,186     | N/A |
| Total                    | \$ 67,014 | \$ 17,943 | \$ 49,071 | N/A |

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

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| Millions, Except Estimated Useful Life<br>As of December 31, 2015 | Cost      | Accumulated<br>Depreciation | Net Book Value | Estimated<br>Useful Life |
|-------------------------------------------------------------------|-----------|-----------------------------|----------------|--------------------------|
| Land                                                              | \$ 5,195  | \$ N/A                      | \$ 5,195       | N/A                      |
| Road:                                                             |           |                             |                |                          |
| Rail and other track material                                     | 15,236    | 5,495                       | 9,741          | 37                       |
| Ties                                                              | 9,439     | 2,595                       | 6,844          | 33                       |
| Ballast                                                           | 5,024     | 1,350                       | 3,674          | 34                       |
| Other roadway [a]                                                 | 17,374    | 3,021                       | 14,353         | 47                       |
| Total road                                                        | 47,073    | 12,461                      | 34,612         | N/A                      |
| Equipment:                                                        |           |                             |                |                          |
| Locomotives                                                       | 9,027     | 3,726                       | 5,301          | 19                       |
| Freight cars                                                      | 2,203     | 962                         | 1,241          | 24                       |
| Work equipment and other                                          | 897       | 191                         | 706            | 19                       |
| Total equipment                                                   | 12,127    | 4,879                       | 7,248          | N/A                      |
| Technology and other                                              | 919       | 358                         | 561            | 11                       |
| Construction in progress                                          | 1,250     | -                           | 1,250          | N/A                      |
| Total                                                             | \$ 66,564 | \$ 17,698                   | \$ 48,866      | N/A                      |

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

## 12. Accounts Payable and Other Current Liabilities

| Millions                                             | Mar. 31, 2016 | Dec. 31, 2015 |
|------------------------------------------------------|---------------|---------------|
| Accounts payable                                     | \$ 791        | \$ 743        |
| Income and other taxes payable                       | 764           | 434           |
| Accrued wages and vacation                           | 403           | 391           |
| Accrued casualty costs                               | 180           | 181           |
| Interest payable                                     | 162           | 208           |
| Equipment rents payable                              | 99            | 105           |
| Other                                                | 486           | 550           |
| Total accounts payable and other current liabilities | \$ 2,885      | \$ 2,612      |

## 13. Financial Instruments

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

**Fair Value of Financial Instruments** – The fair value of our short- and long-term debt was estimated using a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt securities. All of the inputs used to determine the fair market value of the Corporation's long-term debt are Level 2 inputs and obtained from an independent source. At March 31, 2016, the fair value of total debt was \$16.9 billion, approximately \$1.7 billion more than the carrying value. At December 31, 2015, the fair value of total debt was \$15.2 billion, approximately \$1.0 billion more than the carrying value. The fair value of the Corporation's debt is a measure of its current value under present

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market conditions. It does not impact the financial statements under current accounting rules. At both March 31, 2016, and December 31, 2015, approximately \$155 million of debt securities contained call provisions that allow us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

14. Debt

Credit Facilities – At March 31, 2016, we had \$1.7 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 the facility during the three months ended March 31, 2016. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The facility matures in May 2019 under a five-year term and requires UPC to maintain a debt-to-net-worth coverage ratio.

The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At March 31, 2016, the debt-to-net-worth coverage ratio allowed us to carry up to \$41.0 billion of debt (as defined in the facility), and we had \$15.3 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a \$125 million cross-default provision and a change-of-control provision.

During the three months ended March 31, 2016, we did not issue or repay any commercial paper, and at March 31, 2016, we had no commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and, unless we change the terms of our commercial paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings – The Board of Directors authorized the issuance of up to \$4.0 billion of debt securities. Under our shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings.

During the three months ended March 31, 2016, we issued the following unsecured, fixed-rate debt securities under our current shelf registration:

| Date          | Description of Securities                                    |
|---------------|--------------------------------------------------------------|
| March 1, 2016 | \$500 million of 2.750% Notes due March 1, 2026              |
|               | \$600 million of 4.050% Notes due March 1, 2046              |
|               | \$200 million of reopened 4.375% Notes due November 15, 2065 |

We used the net proceeds from this offering for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At March 31, 2016, we had remaining authority to issue up to \$0.9 billion of debt securities under our shelf registration.

Receivables Securitization Facility – As of both March 31, 2016, and December 31, 2015, we recorded \$400 million of borrowings under our receivables securitization facility as secured debt. (See further discussion of our receivables securitization facility in Note 10).

#### 15. Variable Interest Entities

We have entered into various lease transactions in which the structure of the leases contain variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions

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(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 \$2.4 billion as of March 31, 2016.

## 16. Commitments and Contingencies

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

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

Our personal injury liability is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 94% of the recorded liability is related to asserted claims and approximately 6% is related to unasserted claims at March 31, 2016. 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 \$316 million to \$346 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

|                                             |        |        |
|---------------------------------------------|--------|--------|
| Millions,                                   |        |        |
| for the Three Months Ended March 31,        | 2016   | 2015   |
| Beginning balance                           | \$ 318 | \$ 335 |
| Current year accruals                       | 21     | 23     |
| Changes in estimates for prior years        | (10)   | (6)    |
| Payments                                    | (13)   | (53)   |
| Ending balance at March 31                  | \$ 316 | \$ 299 |
| Current portion, ending balance at March 31 | \$ 61  | \$ 70  |

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 March 31, 2016, and December 31, 2015.

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Asbestos – We are a defendant in a number of lawsuits in which current and former employees and other parties allege exposure to asbestos. We assess our potential liability using a statistical analysis of resolution costs for asbestos-related claims. This liability is updated annually and excludes future defense and processing costs. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

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

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 22% of the recorded liability related to asserted claims and approximately 78% related to unasserted claims at March 31, 2016.

Our asbestos-related liability activity was as follows:

|                                             |        |        |
|---------------------------------------------|--------|--------|
| Millions,                                   |        |        |
| for the Three Months Ended March 31,        | 2016   | 2015   |
| Beginning balance                           | \$ 120 | \$ 126 |
| Accruals                                    | -      | -      |
| Payments                                    | (2)    | (1)    |
| Ending balance at March 31                  | \$ 118 | \$ 125 |
| Current portion, ending balance at March 31 | \$ 6   | \$ 7   |

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at March 31, 2016, and December 31, 2015.

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

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have identified 303 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 31 sites that are the subject of actions taken by the U.S. government, 19 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

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

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Our environmental liability activity was as follows:

|                                             |        |        |
|---------------------------------------------|--------|--------|
| Millions,                                   |        |        |
| for the Three Months Ended March 31,        | 2016   | 2015   |
| Beginning balance                           | \$ 190 | \$ 182 |
| Accruals                                    | 19     | 19     |
| Payments                                    | (17)   | (10)   |
| Ending balance at March 31                  | \$ 192 | \$ 191 |
| Current portion, ending balance at March 31 | \$ 56  | \$ 58  |

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

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

**Guarantees** – At both March 31, 2016, and December 31, 2015, we were contingently liable for \$53 million in guarantees. The fair value of these obligations as of both March 31, 2016, and December 31, 2015 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 March 31, 2016, we had commitments for future minimum lease payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year of approximately \$3.3 billion.

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

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Kinder Morgan G.P., Inc., et al., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004). In February 2007, a trial began to resolve this issue, and in May 2012, the trial judge rendered an opinion establishing the fair market rent and entering judgment for back rent, including prejudgment interest. SFPP appealed the judgment. On November 5, 2014, the Second District Circuit Court of Appeal in California issued an opinion holding that UPRR was not entitled to collect rent from SFPP for easements on the portions of the property acquired solely through federal government land grants issued during the 1800s. The Appellate Court also reversed the award of prejudgment interest and remanded the case to the trial court. A favorable final judgment may materially affect UPRR's results of operations in the period of any monetary recoveries. Due to the uncertainty regarding the amount and timing of any recovery or any subsequent proceedings, we consider this a gain contingency and have not recognized any amounts in the Condensed Consolidated Financial Statements as of March 31, 2016.

## 17. Share Repurchase Program

Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2017, replacing our previous repurchase program. As of March 31, 2016, we repurchased a total of \$16.7 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased under this repurchase program during this reporting period.

|                                                                            | Number of Shares |           | Average Price |           |
|----------------------------------------------------------------------------|------------------|-----------|---------------|-----------|
|                                                                            | Purchased        |           | Paid          |           |
|                                                                            | 2016             | 2015      | 2016          | 2015      |
| First quarter                                                              | 9,315,807        | 6,881,455 | \$ 76.49      | \$ 117.28 |
| Remaining number of shares that may be repurchased under current authority |                  |           | 43,336,639    |           |

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.

## 18. 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 \$836 million and \$830 million recognized as investments related to TTX in our Condensed Consolidated Statements of Financial Position as of March 31, 2016, and December 31, 2015, respectively. TTX car hire expenses of \$90 million for both the three months ended March 31, 2016, and 2015, are included in equipment and other rents in our Condensed Consolidated Statements of Income. In addition, UPRR had accounts payable to TTX of \$60 million and \$61 million as of March 31, 2016, and December 31, 2015, respectively.

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

RESULTS OF OPERATIONS

Three Months Ended March 31, 2016, Compared to

Three Months Ended March 31, 2015

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: 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 2015 Annual

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Report on Form 10-K. There have not been any significant changes with respect to these policies during the first three months of 2016.

RESULTS OF OPERATIONS

Quarterly Summary

We reported earnings of \$1.16 per diluted share on net income of nearly \$1.0 billion in the first quarter of 2016 compared to earnings of \$1.30 per diluted share on net income of \$1.2 billion for the first quarter of 2015. Freight revenues decreased 14%, or \$749 million, in the first quarter compared to the same period in 2015. The decrease was due to an 8% decline in volume and a 6% decline in average revenue per car (ARC) resulting from lower fuel surcharge revenue and negative business mix. These declines were partially offset by core pricing gains. Lower energy prices continue to negatively impact the demand for coal and shale related products. In addition to the declines in coal, frac sand, crude oil, and pipe shipments; volumes of grain, metals, and intermodal were down compared to 2015. Vehicle sales remained strong in the first quarter, driving continued growth in shipments of finished vehicles and automotive parts.

Throughout the quarter, we continued our efforts to align our critical resources with current demand. At the end of the quarter, we had approximately 4,400 employees either furloughed or in alternate work status and approximately 1,400 locomotives in storage. Our operating expenses decreased 14% in the first quarter of 2016 compared to 2015 as a result of lower fuel prices, volume-related resource reductions, and productivity gains, more than offsetting inflation and higher depreciation expense.

We improved our operating and service metrics during the quarter. As reported to the Association of American Railroads (AAR), average train speed for the first quarter improved 11% compared to the same period in 2015 driven by lower volumes and improved network fluidity. Average terminal dwell time in the first quarter improved 7% compared to the same period in 2015, aided by the lower volumes and improved network operations.

Operating Revenues

Millions,

%

|                                      |          |          |        |
|--------------------------------------|----------|----------|--------|
| for the Three Months Ended March 31, | 2016     | 2015     | Change |
| Freight revenues                     | \$ 4,502 | \$ 5,251 | (14) % |
| Other revenues                       | 327      | 363      | (10)   |
| Total                                | \$ 4,829 | \$ 5,614 | (14) % |

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

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

Freight revenues, excluding the impact of lower fuel surcharge revenue, decreased during the first quarter of 2016 compared to 2015 as a result of volume declines in four of our six commodity groups and negative business mix which were partially offset by core pricing gains.

Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were \$113 million in the first quarter of 2016 compared to \$447 million in the same period of 2015. Lower fuel surcharge revenue resulted from lower fuel prices, lower volumes, and a smaller fuel surcharge lag benefit compared to the first quarter of 2015 (it can generally take up to two months for changing fuel prices to affect fuel surcharge recoveries).

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Other revenues decreased in the first quarter of 2016 compared to 2015 due to volume-related reductions in accessorial revenues and revenues at our subsidiaries, primarily those that broker intermodal and automotive services.

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

## Freight Revenues

| Millions,<br>for the Three Months Ended March 31, | 2016     | 2015     | %<br>Change |
|---------------------------------------------------|----------|----------|-------------|
| Agricultural Products                             | \$ 882   | \$ 939   | (6) %       |
| Automotive                                        | 510      | 516      | (1)         |
| Chemicals                                         | 878      | 897      | (2)         |
| Coal                                              | 519      | 915      | (43)        |
| Industrial Products                               | 834      | 1,017    | (18)        |
| Intermodal                                        | 879      | 967      | (9)         |
| Total                                             | \$ 4,502 | \$ 5,251 | (14) %      |

## Revenue Carloads

| Thousands,<br>for the Three Months Ended March 31, | 2016  | 2015  | %<br>Change |
|----------------------------------------------------|-------|-------|-------------|
| Agricultural Products                              | 235   | 245   | (4) %       |
| Automotive                                         | 217   | 202   | 7           |
| Chemicals                                          | 268   | 267   | -           |
| Coal                                               | 262   | 399   | (34)        |
| Industrial Products                                | 274   | 306   | (10)        |
| Intermodal [a]                                     | 788   | 812   | (3)         |
| Total                                              | 2,044 | 2,231 | (8) %       |

## Average Revenue per Car

| for the Three Months Ended March 31, | 2016     | 2015     | %<br>Change |
|--------------------------------------|----------|----------|-------------|
| Agricultural Products                | \$ 3,749 | \$ 3,838 | (2) %       |
| Automotive                           | 2,350    | 2,553    | (8)         |
| Chemicals                            | 3,272    | 3,362    | (3)         |

|                     |          |          |       |
|---------------------|----------|----------|-------|
| Coal                | 1,985    | 2,293    | (13)  |
| Industrial Products | 3,041    | 3,325    | (9)   |
| Intermodal [a]      | 1,116    | 1,191    | (6)   |
| Average             | \$ 2,202 | \$ 2,354 | (6) % |

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

Agricultural Products – Freight revenue from agricultural products shipments decreased in the first quarter of 2016 compared to 2015 as lower fuel surcharge revenue and volume declines were partially offset by core pricing gains. The strong U.S. dollar and high worldwide inventories reduced grain and grain products shipments by 5% and 6%, respectively, primarily due to lower demand for export feed grains, wheat, and other feed products.

Automotive – Freight revenue from automotive shipments decreased in the first quarter of 2016 compared to 2015 as a result of lower ARC due to lower fuel surcharge revenue and mix of traffic, more than offsetting volume growth and core pricing gains. Strong automotive production and sales levels drove the volume growth, with stronger growth in automotive parts relative to growth in finished vehicles.

Chemicals – Freight revenue from chemicals decreased in the first quarter of 2016 compared to 2015 primarily due to lower fuel surcharge revenue, which was partially offset by core price improvements. Volume was flat as crude oil shipments declined resulting from continued low crude oil prices, production declines from various shale formations, and regional pricing differences for various types of crude oil.

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Fertilizer shipments also declined due to weak world-wide demand and the strong U.S. dollar. These decreases were offset by growth in industrial chemical and liquid petroleum shipments.

Coal – Lower volume and lower ARC (due to mix of traffic and lower fuel surcharge revenue) resulted in a decline in freight revenue from coal shipments in the first quarter of 2016 compared to 2015. These declines were partially offset by core pricing gains. Shipments out of the Powder River Basin (PRB) declined 38% in the first quarter of 2016 as a result of depressed coal markets due to low natural gas prices, mild winter weather in our served territory, and high inventory levels. Shipments out of Colorado and Utah declined 35% compared to the first quarter of 2015 due to similar market conditions resulting in a shift in electricity generation to other fuel sources as a result of lower natural gas prices. In addition, coal exports declined as a result of a soft global market and lower international coal prices.

Industrial Products – Freight revenue from industrial products shipments decreased compared to the first quarter of 2015 due to lower volume and lower ARC (due to mix of traffic and lower fuel surcharge revenue). These decreases were partially offset by core price improvements. Declines in shale drilling activity, due to lower crude oil prices, negatively impacted non-metallic mineral (primarily frac sand) shipments compared to 2015. Steel shipments also declined as a result of reductions in shale drilling activity and increased imports associated with the strength of the U.S. dollar. Conversely, rock shipments increased as favorable weather conditions in our served territory supported construction activity while lumber shipments grew due to an increase in Canadian imports driven by a strong U.S. dollar.

Intermodal – Lower fuel surcharge revenue and volume declines, partially offset by core price improvement, resulted in a decline in freight revenue from intermodal shipments in the first quarter of 2016 compared to the same period in 2015. Volume levels from both international and domestic traffic decreased 3% due to weaker global trade activity, softer domestic sales, and historically high retail inventories.

Mexico Business – Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business decreased 2% to \$535 million in the first quarter of 2016 compared to the same period in 2015 primarily due to lower fuel surcharge revenue. Volume levels increased 6% compared to first quarter of 2015, driven by growth in Coal, Automotive, Agricultural Products, and Intermodal shipments.

Operating Expenses

| Millions,<br>for the Three Months Ended March 31, | 2016     | 2015     | %<br>Change |
|---------------------------------------------------|----------|----------|-------------|
| Compensation and benefits                         | \$ 1,213 | \$ 1,369 | (11) %      |
| Purchased services and materials                  | 569      | 643      | (12)        |
| Depreciation                                      | 502      | 491      | 2           |
| Fuel                                              | 320      | 564      | (43)        |
| Equipment and other rents                         | 289      | 311      | (7)         |
| Other                                             | 249      | 259      | (4)         |
| Total                                             | \$ 3,142 | \$ 3,637 | (14) %      |

Operating expenses decreased \$495 million in the first quarter compared to 2015. Significantly lower fuel prices, volume-related savings, lower equipment maintenance expense, and productivity gains drove the decrease. These cost reductions were partially offset by inflation and higher depreciation expense.

Compensation and Benefits – Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. For the first quarter, expenses decreased 11%, driven by lower volume-related costs and productivity gains. Inflation due to increased costs for health and welfare partially offset these decreases.

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

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and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Purchased services and materials decreased 12% in the first quarter of 2016, when compared to the same period of 2015. The primary driver was lower volume-related costs, including a decrease in external transportation expenses incurred by our logistics subsidiaries. Expenses also decreased due to lower locomotive and freight car repair and maintenance costs.

Fuel – Fuel includes locomotive fuel and fuel for highway and non-highway vehicles and heavy equipment. Locomotive diesel fuel prices, which averaged \$1.25 per gallon (including taxes and transportation costs) in the first quarter of 2016, compared to \$1.95 per gallon in the same period in 2015, decreased expenses by \$173 million. In addition, fuel costs were lower as gross-ton miles decreased 13% compared to the same period in 2015. The fuel consumption rate (c-rate), computed as gallons of fuel consumed divided by gross ton-miles in thousands, increased 1% compared to the first quarter of 2015. Decreases in heavier, more fuel-efficient shipments, which generally move from a single source to a single destination, decreased gross-ton miles but increased c-rate.

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 first quarter of 2016 compared to 2015. This increase was partially offset by our recent depreciation studies that resulted in lower depreciation rates for some asset classes.

Equipment and Other Rents – Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; and office and other rentals. Equipment and other rents expense in the first quarter of 2016 decreased 7% compared to the same period in 2015 mainly driven by the decline in overall volume levels and lower locomotive lease expense.

Other – Other expenses include state and local taxes; freight, equipment and property damage; utilities, insurance, personal injury, environmental, employee travel, telephone and cellular, computer software, bad debt and other general expenses. Other costs in the first quarter decreased 4% from 2015 due to lower personal injury expense for the reduction of the liability for prior years' activity, as well as lower freight, equipment, and property damage expense. These decreases were partially offset by higher property taxes and a contract settlement that reduced expenses in the first quarter of 2015.

Non-Operating Items

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| Millions,<br>for the Three Months Ended March 31, | 2016  | 2015  | %<br>Change |   |
|---------------------------------------------------|-------|-------|-------------|---|
| Other income                                      | \$ 46 | \$ 26 | 77          | % |
| Interest expense                                  | (167) | (148) | 13          |   |
| Income taxes                                      | (587) | (704) | (17)        |   |

Other Income – Other income increased in the first quarter of 2016 compared to 2015 primarily as a result of a \$17 million gain from a real estate sale and lower environmental costs on non-operating property in 2016.

Interest Expense – Interest expense increased in the first quarter of 2016 compared to 2015 due to an increased weighted-average debt level of \$14.4 billion in 2016 compared to \$12.0 billion in 2015, partially offset by a lower effective interest rate of 4.7% compared to 5.0%.

Income Taxes – Income taxes were lower in the first quarter of 2016 compared to 2015, driven by lower pre-tax income and excess tax benefits associated with share-based compensation (application of ASU 2016-09 as of January 1, 2016). Our effective tax rates for first quarter 2016 and 2015 were 37.5% 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).

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## Operating/Performance Statistics

Railroad performance measures are included in the table below:

|                                      |        |        | %       |
|--------------------------------------|--------|--------|---------|
| For the Three Months Ended March 31, | 2016   | 2015   | Change  |
| Average train speed (miles per hour) | 27.3   | 24.6   | 11 %    |
| Average terminal dwell time (hours)  | 28.6   | 30.6   | (7) %   |
| Gross ton-miles (billions)           | 205.5  | 237.2  | (13) %  |
| Revenue ton-miles (billions)         | 104.7  | 126.4  | (17) %  |
| Operating ratio                      | 65.1   | 64.8   | 0.3 pts |
| Employees (average)                  | 43,655 | 48,830 | (11) %  |

**Average Train Speed** – Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Average train speed for the first quarter of 2016, as reported to the AAR, improved 11% compared to the same period in 2015. Velocity gains resulted from lower volumes, improved network fluidity and a strong resource position.

**Average Terminal Dwell Time** – Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time improves asset utilization and service. Average terminal dwell time in the first quarter of 2016 improved 7%, compared to the same period of 2015, reflecting the impact of lower volume and improved network operations.

**Gross and Revenue Ton-Miles** – Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles and revenue ton-miles decreased 13% and 17%, respectively, during the first quarter of 2016 compared to 2015, resulting from an 8% decline in carloadings. Changes in commodity mix drove the variances in year-over-year declines between gross ton-miles, revenue ton-miles and carloads.

**Operating Ratio** – Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our first quarter operating ratio increased 0.3 points to 65.1% in 2016 versus 2015 as core pricing gains, resource realignments, and productivity gains were more than offset by the impact of lower volume, inflation, and a larger fuel surcharge lag benefit realized in the first quarter of 2015.

Employees – Employee levels in the first quarter decreased 11% compared to the same period in 2015 driven by lower volume levels, productivity gains, and fewer transportation employees in training.

Debt to Capital / Adjusted Debt to Capital

| Millions, Except Percentages | Mar. 31, 2016 | Dec. 31, 2015 |
|------------------------------|---------------|---------------|
| Debt (a)                     | \$ 15,193     | \$ 14,201     |
| Equity                       | 20,475        | 20,702        |
| Capital (b)                  | \$ 35,668     | \$ 34,903     |
| Debt to capital (a/b)        | 42.6%         | 40.7%         |

| Millions, Except Percentages          | Mar. 31, 2016 | Dec. 31, 2015 |
|---------------------------------------|---------------|---------------|
| Debt                                  | \$ 15,193     | \$ 14,201     |
| Net present value of operating leases | 2,617         | 2,726         |
| Unfunded pension and OPEB             | 445           | 463           |
| Adjusted debt (a)                     | 18,255        | 17,390        |
| Equity                                | 20,475        | 20,702        |
| Adjusted capital (b)                  | \$ 38,730     | \$ 38,092     |
| Adjusted debt to capital (a/b)        | 47.1%         | 45.7%         |

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Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K, and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating the total amount of leverage in our capital structure, including off-balance sheet lease obligations, which we generally incur in connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating leases were discounted using 4.7% at March 31, 2016, and 4.8% at December 31, 2015. The discount rate reflects our effective interest rate. We monitor the ratio of adjusted debt to capital as we manage our capital structure to balance cost-effective and efficient access to the capital markets with the Corporation's overall cost of capital. Adjusted debt to capital should be considered in addition to, rather than as a substitute for, debt to capital. The tables above provide reconciliations from debt to capital to adjusted debt to capital.

## LIQUIDITY AND CAPITAL RESOURCES

## Financial Condition

## Cash Flows

Millions,

| for the Three Months Ended March 31,    | 2016     | 2015     |
|-----------------------------------------|----------|----------|
| Cash provided by operating activities   | \$ 2,173 | \$ 2,064 |
| Cash used in investing activities       | (672)    | (1,142)  |
| Cash used in financing activities       | (219)    | (921)    |
| Net change in cash and cash equivalents | \$ 1,282 | \$ 1     |

## Operating Activities

The timing of tax payments, primarily related to bonus depreciation on capital spending, and changes in working capital in the first three months of 2016 combined to increase cash provided by operating activities compared to the same period of 2015.

## Investing Activities

Lower capital investments in the first three months of 2016 decreased cash used in investing activities compared to the same period in 2015.

The table below details cash capital investments:

|                                                   |        |          |
|---------------------------------------------------|--------|----------|
| Millions,<br>for the Three Months Ended March 31, | 2016   | 2015     |
| Rail and other track material                     | \$ 146 | \$ 170   |
| Ties                                              | 126    | 106      |
| Ballast                                           | 50     | 49       |
| Other [a]                                         | 100    | 65       |
| Total road infrastructure replacements            | 422    | 390      |
| Line expansion and other capacity projects        | 40     | 124      |
| Commercial facilities                             | 35     | 50       |
| Total capacity and commercial facilities          | 75     | 174      |
| Locomotives and freight cars [b]                  | 100    | 361      |
| Positive train control                            | 68     | 92       |
| Technology and other                              | 22     | 84       |
| Total cash capital investments                    | \$ 687 | \$ 1,101 |

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

[b]Locomotives and freight cars include lease buyouts.

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## Capital Plan

Due to business conditions, we are reducing our capital plan by \$75 million to approximately \$3.675 billion in 2016, which includes Positive Train Control (PTC), but excludes lease buyouts. We will continue to evaluate and revise our capital plan if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments.

## Financing Activities

Cash used in financing activities decreased in the first three months of 2016 compared to the same period of 2015. A decrease of \$457 million in dividends paid, an increase of \$132 million in debt issued, a decrease of \$86 million for the repurchase of shares under our common stock repurchase program, and a decrease of \$51 million in debt repaid all contributed to the overall decrease. The decrease in dividends paid was a result of adjusting the dividend payable dates in 2015 to align with the timing of the quarterly dividend declaration and payment within the same quarter. Aligning the quarterly dividend declaration and payment resulted in two payments in the first quarter of 2015: the fourth quarter 2014 dividend of \$438 million, which was paid on January 2, 2015, as well as the first quarter 2015 dividend of \$484 million, which was paid on March 30, 2015.

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

|                                       |          |          |
|---------------------------------------|----------|----------|
| Millions,                             |          |          |
| for the Three Months Ended March 31,  | 2016     | 2015     |
| Cash provided by operating activities | \$ 2,173 | \$ 2,064 |
| Cash used in investing activities     | (672)    | (1,142)  |
| Dividends paid                        | (465)    | (922)    |

Free cash flow \$ 1,036 \$ -

Credit Facilities – At March 31, 2016, we had \$1.7 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 the facility during the three months ended March 31, 2016. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The facility matures in May 2019 under a five-year term and requires UPC to maintain a debt-to-net-worth coverage ratio. At March 31, 2016, and December 31, 2015 (and at all times during the periods presented), we were in compliance with this covenant.

The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At March 31, 2016, the debt-to-net-worth coverage ratio allowed us to carry up to \$41.0 billion of debt (as defined in the facility), and we had \$15.3 billion of debt (as defined in the facility) outstanding at that date. Under our current capital plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a \$125 million cross-default provision and a change-of-control provision.

During the three months ended March 31, 2016, we did not issue or repay any commercial paper, and at March 31, 2016, we had no commercial paper outstanding. Our revolving credit facility supports our

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outstanding commercial paper balances, and, unless we change the terms of our commercial paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the facility.

**Shelf Registration Statement and Significant New Borrowings** –The Board of Directors authorized the issuance of up to \$4.0 billion of debt securities. Under our shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

During the three months ended March 31, 2016, we issued the following unsecured, fixed-rate debt securities under our current shelf registration:

| Date          | Description of Securities                                    |
|---------------|--------------------------------------------------------------|
| March 1, 2016 | \$500 million of 2.750% Notes due March 1, 2026              |
|               | \$600 million of 4.050% Notes due March 1, 2046              |
|               | \$200 million of reopened 4.375% Notes due November 15, 2065 |

We used the net proceeds from this offering for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At March 31, 2016, we had remaining authority to issue up to \$0.9 billion of debt securities under our shelf registration.

**Receivables Securitization Facility** – The Railroad maintains a \$650 million, 3-year receivables securitization facility maturing in July 2017 under which it sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a 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 facility was \$400 million at both March 31, 2016, and December 31, 2015. The facility was supported by \$1 billion and \$0.9 billion of accounts receivable as collateral at March 31, 2016, and December 31, 2015, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

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

The costs of the receivables securitization facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were \$2 million and \$1 million for the three months ended March 31, 2016, and 2015, respectively.

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## Share Repurchase Program

Effective January 1, 2014, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2017, replacing our previous repurchase program. As of March 31, 2016, we repurchased a total of \$16.7 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased under this repurchase program during this reporting period.

|                                                                                  | Number of Shares<br>Purchased |           | Average Price<br>Paid |           |
|----------------------------------------------------------------------------------|-------------------------------|-----------|-----------------------|-----------|
|                                                                                  | 2016                          | 2015      | 2016                  | 2015      |
| First quarter                                                                    | 9,315,807                     | 6,881,455 | \$ 76.49              | \$ 117.28 |
| Remaining number of shares that<br>may be repurchased under current<br>authority |                               |           | 43,336,639            |           |

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

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

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

The following tables identify material obligations and commitments as of March 31, 2016:

| Contractual Obligations<br>Millions | Total     | Apr. 1 Payments Due by Dec. 31,<br>through<br>Dec. 31, |          |          |          |          | After     |        |
|-------------------------------------|-----------|--------------------------------------------------------|----------|----------|----------|----------|-----------|--------|
|                                     |           | 2016                                                   | 2017     | 2018     | 2019     | 2020     | 2020      | Other  |
| Debt [a]                            | \$ 25,103 | \$ 647                                                 | \$ 1,481 | \$ 985   | \$ 1,028 | \$ 1,386 | \$ 19,576 | \$ -   |
| Operating leases [b]                | 3,282     | 292                                                    | 453      | 379      | 347      | 285      | 1,526     | -      |
| Capital lease obligations [c]       | 1,485     | 115                                                    | 220      | 198      | 184      | 193      | 575       | -      |
| Purchase obligations [d]            | 3,224     | 1,606                                                  | 632      | 304      | 255      | 199      | 196       | 32     |
| Other postretirement benefits [e]   | 441       | 34                                                     | 45       | 46       | 46       | 45       | 225       | -      |
| Income tax contingencies [f]        | 95        | -                                                      | -        | -        | -        | -        | -         | 95     |
| Total contractual obligations       | \$ 33,630 | \$ 2,694                                               | \$ 2,831 | \$ 1,912 | \$ 1,860 | \$ 2,108 | \$ 22,098 | \$ 127 |

[a]Excludes capital lease obligations of \$1,197 million, as well as unamortized discount and deferred issuance costs of (\$700) million. Includes an interest component of \$10,407 million.

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

[c]Represents total obligations, including interest component of \$288 million.

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

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

[f]Future cash flows for income tax contingencies reflect the recorded liabilities and assets for unrecognized tax benefits, including interest and penalties, as of March 31, 2016. For amounts where the year of settlement is uncertain, they are reflected in the Other column.

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| Other Commercial Commitments<br>Millions | Total    | Amount of Commitment Expiration |             |       |          |       |       |
|------------------------------------------|----------|---------------------------------|-------------|-------|----------|-------|-------|
|                                          |          | Apr. 1<br>through<br>Dec. 31,   | by Dec. 31, |       |          | After |       |
|                                          |          | 2016                            | 2017        | 2018  | 2019     | 2020  | 2020  |
| Credit facilities [a]                    | \$ 1,700 | \$ -                            | \$ -        | \$ -  | \$ 1,700 | \$ -  | \$ -  |
| Receivables securitization facility [b]  | 650      | -                               | 650         | -     | -        | -     | -     |
| Guarantees [c]                           | 53       | 9                               | 10          | 11    | 8        | 5     | 10    |
| Standby letters of credit [d]            | 32       | 23                              | 9           | -     | -        | -     | -     |
| Total commercial commitments             | \$ 2,435 | \$ 32                           | \$ 669      | \$ 11 | \$ 1,708 | \$ 5  | \$ 10 |

[a] None of the credit facility was used as of March 31, 2016.

[b] \$400 million of the receivables securitization facility was utilized as of March 31, 2016, which is accounted for as debt. The full program matures in July 2017.

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

[d] None of the letters of credit were drawn upon as of March 31, 2016.

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

In 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. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. ASU 2016-01 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

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 is currently evaluating the impact of this standard on our consolidated financial position, results of operations, and cash flows.

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In March 2016, the FASB issued Accounting Standards Update No. 2016-09 (ASU 2016-09) Compensation - Stock Compensation (Topic 718), which simplifies the accounting for income taxes related to stock-based compensation. We elected to early adopt ASU 2016-09 in the first quarter of 2016 with an effective date of January 1, 2016. As a result of the adoption, we recognized excess tax benefits of \$10 million in the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows. Prior periods have not been adjusted.

CAUTIONARY INFORMATION

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

Forward-looking statements and information reflect the good faith consideration by management of currently available information, and may be based on underlying assumptions believed to be reasonable under the circumstances. However, such information and assumptions (and, therefore, such forward-looking statements and information) are or may be subject to variables or unknown or unforeseeable events or circumstances over which management has little or no influence or control. The Risk Factors in Item 1A of our 2015 Annual Report on Form 10-K, filed February 6, 2016, 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 2015 Annual Report on Form 10-K.

### Item 4. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer (CEO) and Executive Vice President – Finance and Chief Financial Officer (CFO), of the

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

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

#### Environmental Matters

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2015, a punctured tank car resulted in an accidental release of sulfuric acid in a rail yard in Herington, Kansas in January, 2012. The acid was released on the ground and entered a creek that runs adjacent to the yard. Environmental remediation at the site is complete. Despite negotiations with the federal government, the Assistant U.S. Attorney (District of Kansas) filed a criminal charge against the Railroad on March 30, 2015, in the U.S. District Court for Kansas. The action alleges a

misdemeanor charge for negligent violation of the Clean Water Act. The penalty range was \$2,500 to \$200,000. On January 12, 2016, the federal judge in the U.S. District Court for Kansas dismissed the charge against the Railroad. The U.S. Department of Justice on behalf of the EPA has notified us it will not appeal the dismissal of the charge.

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 2015 Annual Report on Form 10-K.

#### Other Matters

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

antitrust lawsuits in various federal district courts against us and four other Class I railroads in the U.S. Currently, UPRR and three other Class I railroads are the named defendants in the lawsuit. The original plaintiff filed the first of these claims in the U.S. District Court in New Jersey on May 14, 2007. The

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number of complaints reached a total of 30. These suits allege that the named railroads engaged in price-fixing by establishing common fuel surcharges for certain rail traffic.

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

On June 21, 2012, Judge Friedman issued a decision that certified a class of plaintiffs with eight named plaintiff representatives. The decision included in the class all shippers that paid a rate-based fuel surcharge to any one of the defendant railroads for rate-unregulated rail transportation from July 1, 2003, through December 31, 2008. This was a procedural ruling, which did not affirm any of the claims asserted by the plaintiffs and does not address the ability of the railroad defendants to disprove the allegations made by the plaintiffs. On July 5, 2012, the defendant railroads filed a petition with the U.S. Court of Appeals for the District of Columbia requesting that the court review the class certification ruling. On August 28, 2012, a panel of the Circuit Court of the District of Columbia referred the petition to a merits panel of the court to address the issues in the petition and to address whether the district court properly granted class certification. The Circuit Court heard oral arguments on May 3, 2013. On August 9, 2013, the Circuit Court vacated the class certification decision and remanded the case to the district court to reconsider the class certification decision in light of a recent Supreme Court case and incomplete consideration of errors in the expert report of the plaintiffs. On October 31, 2013, Judge Friedman approved a schedule agreed to by all parties for consideration of the class certification issue on remand.

On October 2, 2014, the plaintiffs informed Judge Friedman that their economic expert had a previously undisclosed conflict of interest. Judge Friedman ruled on November 26, 2014, that the plaintiffs had until April 1, 2015, to file a supplemental expert report to support their motion for class certification. The plaintiffs filed their supplemental expert report on April 1, 2015. Judge Friedman issued a scheduling order on June 19, 2015, scheduling a class certification hearing for November 2, 2015. Judge Friedman then vacated the hearing date in an Order on September 28, 2015 because of the potential impact resulting from the decision of the U.S. Supreme Court case, *Tyson Foods v. Bouaphakeo*, related to class action certification and damages, which was heard on November 10, 2015. The U.S. Supreme Court issued a decision in that case on March 22, 2016. The parties have filed briefs addressing the *Tyson Foods* decision and are now preparing to file a joint schedule and briefing statement with Judge Friedman.

As we reported in our Current Report on Form 8-K, filed on June 10, 2011, the Railroad received a complaint filed in the U.S. District Court for the District of Columbia on June 7, 2011, by Oxbow Carbon & Minerals LLC and related

entities (Oxbow). The complaint named the Railroad and one other U.S. Class I Railroad as defendants and alleged that the named railroads engaged in price-fixing and monopolistic practices in connection with fuel surcharge programs and pricing of shipments of certain commodities, including coal and petroleum coke. The complaint sought injunctive relief and payment of damages of over \$30 million, and other unspecified damages, including treble damages. Some of the allegations in the complaint were addressed in the existing fuel surcharge litigation referenced above. The complaint also included additional unrelated allegations regarding alleged limitations on competition for shipments of Oxbow's commodities. Judge Friedman, who presides over the fuel surcharge matter described above, also presides over this matter. On February 26, 2013, Judge Friedman granted the defendants' motion to dismiss Oxbow's complaint for failure to state properly a claim under the antitrust laws. However, the dismissal was without prejudice to refile the complaint. Judge Friedman approved a schedule that allowed Oxbow to file a revised complaint, which Oxbow filed on May 1, 2013. The amended complaint alleges that UPRR and one other Class I railroad violated Sections 1 and 2 of the Sherman Antitrust Act and that UPRR also breached a tolling agreement between Oxbow and UPRR. Oxbow claims that it paid more than \$50 million in wrongfully imposed fuel surcharges. UPRR and the other railroad filed separate motions to dismiss the Oxbow revised complaint on July 1, 2013. Judge Friedman heard oral arguments on the motions to dismiss filed by UPRR and the other railroad on January 8, 2015. Judge Friedman

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denied the motions to dismiss on February 24, 2015. This was a procedural ruling, which did not affirm any of the claims asserted by Oxbow and does not affect the ability of the railroad defendants to disprove the allegations made by Oxbow. UPRR filed its answer to Oxbow's complaint on March 24, 2015, and the parties have commenced discovery.

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

## Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our 2015 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 first quarter of 2016:

| Period                 | Total Number of<br>Shares<br>Purchased [a] | Average<br>Price<br>Paid<br>Per<br>Share | Total Number of Shares<br>Purchased as Part of a<br>Publicly Announced Plan<br>or Program [b] | Maximum Number of<br>Shares That May Be<br>Purchased Under Current<br>Authority [b] |
|------------------------|--------------------------------------------|------------------------------------------|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Jan. 1 through Jan. 31 | 2,951,126                                  | \$ 71.88                                 | 2,947,906                                                                                     | 49,704,540                                                                          |
| Feb. 1 through Feb. 29 | 3,762,036                                  | 76.18                                    | 3,285,917                                                                                     | 46,418,623                                                                          |
| Mar. 1 through Mar. 31 | 3,098,581                                  | 80.61                                    | 3,081,984                                                                                     | 43,336,639                                                                          |
| Total                  | 9,811,743                                  | \$ 76.29                                 | 9,315,807                                                                                     | N/A                                                                                 |

[a]Total number of shares purchased during the quarter includes 495,936 shares delivered or attested to UPC by employees to pay stock option exercise prices, satisfy excess tax withholding obligations for stock option exercises or vesting of retention units, and pay withholding obligations for vesting of retention shares.

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

Dividend Restrictions – Our revolving credit facility includes a debt-to-net worth covenant that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was \$12.8 billion and \$13.6 billion at March 31, 2016, and December 31, 2015, respectively.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not Applicable.

### Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No. Description

Filed with  
this  
Statement

|       |                                                                                                                                                                                               |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12    | Ratio of<br>Earnings to<br>Fixed Charges<br>for the Three<br>Months Ended<br>March 31, 2016<br>and 2015.                                                                                      |
| 31(a) | Certifications<br>Pursuant to Rule<br>13a-14(a), of the<br>Exchange Act,<br>as Adopted<br>pursuant to<br>Section 302 of<br>the<br>Sarbanes-Oxley<br>Act of 2002 –<br>Lance M. Fritz.          |
| 31(b) | Certifications<br>Pursuant to Rule<br>13a-14(a), of the<br>Exchange Act,<br>as Adopted<br>pursuant to<br>Section 302 of<br>the<br>Sarbanes-Oxley<br>Act of 2002 -<br>Robert M.<br>Knight, Jr. |
| 32    | Certifications<br>Pursuant to 18<br>U.S.C. Section<br>1350, as<br>Adopted<br>pursuant to<br>Section 906 of                                                                                    |

101

the  
Sarbanes-Oxley  
Act of 2002 –  
Lance M. Fritz  
and Robert M.  
Knight, Jr.  
eXtensible  
Business  
Reporting  
Language  
(XBRL)  
documents  
submitted  
electronically:  
101.INS (XBRL  
Instance  
Document),  
101.SCH  
(XBRL  
Taxonomy  
Extension  
Schema  
Document),  
101.CAL  
(XBRL  
Calculation  
Linkbase  
Document),  
101.LAB  
(XBRL  
Taxonomy  
Label Linkbase  
Document),  
101.DEF  
(XBRL  
Taxonomy  
Definition  
Linkbase  
Document) and  
101.PRE  
(XBRL  
Taxonomy  
Presentation  
Linkbase  
Document). The  
following  
financial and  
related  
information  
from Union  
Pacific

Corporation's  
Quarterly  
Report on Form  
10-Q for the  
period ended  
March 31, 2016  
(filed with the  
SEC on April  
21, 2016), is  
formatted in  
XBRL and  
submitted  
electronically  
herewith: (i)  
Condensed  
Consolidated  
Statements of  
Income for the  
periods ended  
March 31, 2016  
and 2015, (ii)  
Condensed  
Consolidated  
Statements of  
Comprehensive  
Income for the  
periods ended  
March 31, 2016  
and 2015, (iii)  
Condensed  
Consolidated  
Statements of  
Financial  
Position at  
March 31, 2016  
and December  
31, 2015, (iv)  
Condensed  
Consolidated  
Statements of  
Cash Flows for  
the periods  
ended March  
31, 2016 and  
2015, (v)  
Condensed  
Consolidated  
Statements of  
Changes in  
Common  
Shareholders'

Equity for the periods ended March 31, 2016 and 2015, 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.

4(a) Form of 2.750% Note due 2026 is incorporated by reference to Exhibit 4.1 to the Corporation's

- Current Report  
on Form 8-K  
dated March 1,  
2016.
- 4(b) Form of 4.050%  
Note due 2046  
is incorporated  
by reference to  
Exhibit 4.2 to  
the Corporation's  
Current Report  
on Form 8-K  
dated March 1,  
2016.
- 4(c) Form of 4.375%  
Note due 2065  
is incorporated  
by reference to  
Exhibit 4.3 to  
the Corporation's  
Current Report  
on Form 8-K  
dated March 1,  
2016.

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SIGNATURES

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

Dated: April 21, 2016

UNION PACIFIC CORPORATION (Registrant)

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

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