UNION PACIFIC CORP
Form 10-Q
April 18, 2019
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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, 2019

OR

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

For the transition period from _____ to _____

Commission File Number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

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

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant’s telephone number, including area code)

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

Yes No

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

Yes No

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

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

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

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

Yes No

As of April 12, 2019, there were 707,838,173 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

for the Three Months Ended March 31,	2019	2018
Operating revenues:		
Freight revenues	$ 5,010	$ 5,122
Other revenues	374	353
Total operating revenues	5,384	5,475
Operating expenses:		
Compensation and benefits	1,205	1,273
Purchased services and materials	576	599
Depreciation	549	543
Fuel	531	589
Equipment and other rents	258	266
Other	305	266
Total operating expenses	3,424	3,536
Operating income	1,960	1,939
Other income/(expense) (Note 6)	77	(42)
Interest expense	(247)	(186)
Income before income taxes	1,790	1,711
Income taxes	(399)	(401)
Net income	$ 1,391	$ 1,310
Share and Per Share (Note 8):		
Earnings per share - basic	$ 1.94	$ 1.69
Earnings per share - diluted	$ 1.93	$ 1.68
Weighted average number of shares - basic	716.8	776.4
Weighted average number of shares - diluted	719.5	779.6

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, for the Three Months Ended March 31,	2019	2018
Net income	$ 1,391	$ 1,310
Other comprehensive income/(loss):		
Defined benefit plans	10	19
Foreign currency translation	27	-
Total other comprehensive income/(loss) [a]	37	19
Comprehensive income	$ 1,428	$ 1,329

[a]Net of deferred taxes of $(4) million and $(6) million during the three months ended March 31, 2019, and 2018, 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, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 1,059	$ 1,273
Short-term investments (Note 13)	60	60
Accounts receivable, net (Note 10)	1,672	1,755
Materials and supplies	780	742
Other current assets	382	333
Total current assets	3,953	4,163
Investments	1,951	1,912
Net properties (Note 11)	52,856	52,679
Operating lease assets (Note 16)	2,146	-
Other assets	413	393
Total assets	$ 61,319	$ 59,147
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 12)	$ 3,559	$ 3,160
Debt due within one year (Note 14)	1,703	1,466
Total current liabilities	5,262	4,626
Debt due after one year (Note 14)	23,409	20,925
Operating lease liabilities (Note 16)	1,663	-
Deferred income taxes	11,408	11,302
Other long-term liabilities	1,835	1,871
Commitments and contingencies (Note 17)		
Total liabilities	43,577	38,724
Common shareholders' equity:		
Common shares, $2.50 par value, 1,400,000,000 authorized; 1,112,062,832 and 1,111,739,781 issued; 708,456,092 and 725,056,690 outstanding, respectively	2,780	2,779
Paid-in-surplus	3,929	4,449
Retained earnings	46,049	45,284
Treasury stock	(33,638)	(30,674)
Accumulated other comprehensive loss (Note 9)	(1,378)	(1,415)
Total common shareholders' equity	17,742	20,423
Total liabilities and common shareholders' equity	$ 61,319	$ 59,147

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, for the Three Months Ended March 31,	2019	2018
Operating Activities		
Net income	$ 1,391	$ 1,310
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	549	543
Deferred and other income taxes	103	112
Other operating activities, net	(53)	339
Changes in current assets and liabilities:		
Accounts receivable, net	83	(78)
Materials and supplies	(38)	(59)
Other current assets	(57)	(112)
Accounts payable and other current liabilities	(259)	(379)
Income and other taxes	240	225
Cash provided by operating activities	1,959	1,901
Investing Activities		
Capital investments	(752)	(910)
Purchases of short-term investments (Note 13)	(90)	(60)
Maturities of short-term investments (Note 13)	90	60
Proceeds from asset sales	14	12
Other investing activities, net	(46)	(21)
Cash used in investing activities	(784)	(919)
Financing Activities		
Debt issued (Note 14)	2,992	150
Common share repurchases (Note 18)	(2,987)	(1,166)
Dividends paid	(626)	(568)
Debt repaid	(560)	(237)
Accelerated share repurchase programs pending final settlement	(500)	-
Net issuance of commercial paper (Note 14)	299	636
Other financing activities, net	(23)	(24)
Cash used in financing activities	(1,405)	(1,209)
Net change in cash, cash equivalents and restricted cash	(230)	(227)
Cash, cash equivalents, and restricted cash at beginning of year	1,328	1,275
Cash, cash equivalents, and restricted cash at end of period	$ 1,098	$ 1,048
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	$ 149	$ 74

Common shares repurchased but not yet paid	22	64
Cash (paid for)/received from:		
Income taxes, net of refunds	$ (1)	$ 2
Interest, net of amounts capitalized	(356)	(230)
Reconciliation of cash, cash equivalents, and restricted cash to the Condensed Consolidated Statement of Financial Position:		
Cash and cash equivalents	$ 1,059	$ 1,048
Restricted cash equivalents in other current assets	27	-
Restricted cash equivalents in other assets	12	-
Total cash, cash equivalents and restricted cash equivalents per above	$ 1,098	$ 1,048

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 Shares	Treasury Shares	Common Shares	Paid-in-Surplus	Retained Earnings	Treasury Stock	AOCI [a]	Total
Balance at January 1, 2018	1,111.4	(330.5)	$ 2,778	$ 4,476	$ 41,317	$ (22,574)	$ (1,141)	$ 24,856
Net income			-	-	1,310	-	-	1,310
Other comprehensive income			-	-	-	-	19	19
Conversion, stock option exercises, forfeitures, and other	0.4	0.5	1	(3)	-	4	-	2
Share repurchase programs (Note 18)	-	(9.3)	-	-	-	(1,230)	-	(1,230)
Cash dividends declared ($0.73 per share)	-	-	-	-	(568)	-	-	(568)
Reclassification due to ASU 2018-02 adoption	-	-	-	-	300	-	(300)	-
Balance at March 31, 2018	1,111.8	(339.3)	$ 2,779	$ 4,473	$ 42,359	$ (23,800)	$ (1,422)	$ 24,389
Balance at January 1, 2019	1,111.7	(386.6)	$ 2,779	$ 4,449	$ 45,284	$ (30,674)	$ (1,415)	$ 20,423
Net income			-	-	1,391	-	-	1,391
Other comprehensive income			-	-	-	-	37	37
Conversion, stock option exercises, forfeitures, and	0.3	1.1	1	(20)	-	45	-	26

other								
Share repurchase programs (Note 18)	-	(18.1)	-	(500)	-	(3,009)	-	(3,509)
Cash dividends declared ($0.88 per share)	-	-	-	-	(626)	-	-	(626)
Balance at March 31, 2019	1,112.0	(403.6)	$ 2,780	$ 3,929	$ 46,049	$ (33,638)	$ (1,378)	$ 17,742

[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 2018 Annual Report on Form 10-K. Our Consolidated Statement of Financial Position at December 31, 2018, is derived from audited financial statements. The results of operations for the three months ended March 31, 2019, are not necessarily indicative of the results for the entire year ending December 31, 2019.

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

2. Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. We implemented an enterprise-wide lease management system to support the new reporting requirements, and effective January 1, 2019, we adopted ASU No. 2016-02, Leases (Topic 842). We elected an initial application date of January 1, 2019 and will not recast comparative periods in transition to the new standard. In addition, we elected certain practical expedients which permit us to not reassess whether existing

contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease and nonlease components for all classes of underlying assets. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. Adoption of the new standard resulted in an increase in the Company's assets and liabilities of approximately $2 billion. The ASU did not have an impact on our consolidated results of operations or cash flows.

3. Operations and Segmentation

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

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

Millions, for the Three Months Ended March 31,	2019	2018
Agricultural Products	$ 1,067	$ 1,098
Energy	982	1,173
Industrial	1,410	1,340
Premium	1,551	1,511
Total freight revenues	$ 5,010	$ 5,122
Other subsidiary revenues	223	217
Accessorial revenues	133	121
Other	18	15
Total operating revenues	$ 5,384	$ 5,475

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origin or destination for some products we transport are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are freight revenues from our Mexico business which amounted to $576 million and $579 million, respectively, for the three months ended March 31, 2019, and March 31, 2018.

4. Stock-Based Compensation

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

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

Millions, for the Three Months Ended March 31,	2019	2018
Stock-based compensation, before tax:		

Stock options	$ 5	$ 4
Retention awards	22	21
Total stock-based compensation, before tax	$ 27	$ 25
Excess tax benefits from equity compensation plans	$ 39	$ 15

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

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

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant; the expected dividend yield is calculated as the ratio of dividends paid per share of common stock to the stock price on the date of grant; the expected life is based on historical and expected exercise behavior; and expected volatility is based on the historical volatility of our stock price over the expected life of the option.

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A summary of stock option activity during the three months ended March 31, 2019, is presented below:

	Options (thous.)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (millions)
Outstanding at January 1, 2019	5,170	$ 92.06	5.4 yrs.	$ 239
Granted	573	160.84	N/A	N/A
Exercised	(1,505)	68.66	N/A	N/A
Forfeited or expired	(36)	119.14	N/A	N/A
Outstanding at March 31, 2019	4,202	$ 109.59	6.6 yrs.	$ 242
Vested or expected to vest at March 31, 2019	4,161	$ 109.31	6.6 yrs.	$ 241
Options exercisable at March 31, 2019	2,856	$ 97.12	5.6 yrs.	$ 200

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, 2019, are subject to performance or market-based vesting conditions.

At March 31, 2019, there was $30 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.6 years. Additional information regarding stock option exercises appears in the table below:

Millions, for the Three Months Ended March 31,	2019	2018
Intrinsic value of stock options exercised	$ 138	$ 33
Cash received from option exercises	72	26
Treasury shares repurchased for employee taxes	(22)	(8)
Tax benefit realized from option exercises	34	8
Aggregate grant-date fair value of stock options vested	15	18

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

Changes in our retention awards during the three months ended March 31, 2019, were as follows:

	Shares (thous.)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2019	2,070	$ 104.55
Granted	374	161.56
Vested	(419)	120.91
Forfeited	(40)	109.51
Nonvested at March 31, 2019	1,985	$ 111.74

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, 2019, there was $135 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.1 years.

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

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Stock units awarded to selected employees under these grants are subject to continued employment for 37 months and the attainment of certain levels of ROIC, modified for the relative OIG. We expense the fair value of the units that are probable of being earned based on our forecasted ROIC over the 3-year performance period, and with respect to the third year of the plan, the relative OIG modifier. We measure the fair value of these performance stock units based upon the closing price of the underlying common stock as of the date of grant, reduced by the present value of estimated future dividends. Dividend equivalents are paid to participants only after the units are earned.

The assumptions used to calculate the present value of estimated future dividends related to the February 2019 grant were as follows:

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

Changes in our performance retention awards during the three months ended March 31, 2019, were as follows:

	Shares (thous.)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2019	1,092	$ 95.12
Granted	308	151.33
Vested	(267)	70.57
Unearned	(127)	70.09
Forfeited	(28)	109.39
Nonvested at March 31, 2019	978	$ 122.37

At March 31, 2019, there was $54 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.6 years. This expense is subject to achievement of the performance measures established for the performance stock unit grants.

5. Retirement Plans

Pension and Other Postretirement Benefits

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

Other Postretirement Benefits (OPEB) – We provide medical and life insurance benefits for eligible retirees hired before January 1, 2004. These benefits are funded as medical claims and life insurance premiums are paid.

Expense

Both pension and OPEB expense are determined based upon the annual service cost of benefits (the actuarial cost of benefits earned during a period) and the interest cost on those liabilities, less the expected return on plan assets. The expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a 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	
for the Three Months Ended March 31,	2019	2018	2019	2018
Service cost	$ 22	$ 27	$ -	$ -
Interest cost	40	36	3	3
Expected return on plan assets	(68)	(68)	-	-
Amortization of actuarial loss	16	23	1	2
Net periodic benefit cost	$ 10	$ 18	$ 4	$ 5

Cash Contributions

For the three months ended March 31, 2019, we did not make any cash contributions to the qualified pension plan. Any contributions made during 2019 will be based on cash generated from operations and financial market considerations. Our policy with respect to funding the qualified plans is to fund at least the minimum required by law and not more than the maximum amount deductible for tax purposes. At March 31, 2019, we do not have minimum cash funding requirements for 2019.

6. Other Income / (Expense)

Other income / (expense) included the following:

Millions,		
for the Three Months Ended March 31,	2019	2018
Rental income	$ 29	$ 28
Interest income	9	4
Net periodic pension and OPEB costs	8	4
Net gain on non-operating asset dispositions	4	6
Early extinguishment of debt [a]	-	(85)
Non-operating environmental costs and other [b]	27	1
Total	$ 77	$ (42)

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

(Note 14).

[b]2019 includes $27 million in interest income associated with the employment tax refund (Note 17).

7. Income Taxes

The Internal Revenue Service (IRS) is performing limited scope audits of UPC's 2016 and 2017 tax returns. The statute of limitations has run for all years prior to 2015. Several state tax authorities are examining our state tax returns for years 2015 through 2017. At March 31, 2019, we had a net liability for unrecognized tax benefits of $176 million.

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

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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, for the Three Months Ended March 31,	2019	2018
Net income	$ 1,391	$ 1,310
Weighted-average number of shares outstanding:		
Basic	716.8	776.4
Dilutive effect of stock options	1.3	1.8
Dilutive effect of retention shares and units	1.4	1.4
Diluted	719.5	779.6
Earnings per share – basic	$ 1.94	$ 1.69
Earnings per share – diluted	$ 1.93	$ 1.68
Stock options excluded as their inclusion would be anti-dilutive	0.4	0.5

9. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three months ended March 31, 2019, and 2018, were as follows (net of tax):

Millions	Defined benefit plans	Foreign currency translation	Total
Balance at January 1, 2019	$ (1,192)	$ (223)	$ (1,415)
Other comprehensive income/(loss) before reclassifications	(3)	27	24
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	13	-	13
Net year-to-date other comprehensive income/(loss), net of taxes of $(4) million	10	27	37
Balance at March 31, 2019	$ (1,182)	$ (196)	$ (1,378)

Balance at January 1, 2018	$ (1,029)	$ (112)	$ (1,141)
Other comprehensive income/(loss) before reclassifications	-	-	-
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	19	-	19
Net year-to-date other comprehensive income/(loss), net of taxes of $(6) million	19	-	19
Reclassification due to ASU 2018-02 adoption [b]	(225)	(75)	(300)
Balance at March 31, 2018	$ (1,235)	$ (187)	$ (1,422)

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

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

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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, 2019, and December 31, 2018, our accounts receivable were reduced by $6 million and $3 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At March 31, 2019, and December 31, 2018, receivables classified as other assets were reduced by allowances of $28 million and $27 million, respectively.

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

The amount recorded under the Receivables Facility was $400 million at both March 31, 2019, and December 31, 2018. The Receivables Facility was supported by $1.3 billion and $1.4 billion of accounts receivable as collateral at March 31, 2019, and December 31, 2018, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

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

The costs of the Receivables Facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the Receivables Facility are included in interest expense and were $4 million for both the three months ended March 31, 2019, and 2018.

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11. Properties

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

Millions, Except Estimated Useful Life As of March 31, 2019	Cost	Accumulated Depreciation	Net Book Value	Estimated Useful Life
Land	$ 5,266	$ N/A	$ 5,266	N/A
Road:				
Rail and other track material	16,872	6,213	10,659	42
Ties	10,496	3,075	7,421	34
Ballast	5,594	1,619	3,975	34
Other roadway [a]	19,703	3,844	15,859	48
Total road	52,665	14,751	37,914	N/A
Equipment:				
Locomotives	9,638	3,739	5,899	18
Freight cars	2,198	906	1,292	24
Work equipment and other	1,056	311	745	19
Total equipment	12,892	4,956	7,936	N/A
Technology and other	1,121	496	625	12
Construction in progress	1,115	-	1,115	N/A
Total	$ 73,059	$ 20,203	$ 52,856	N/A

Millions, Except Estimated Useful Life As of December 31, 2018	Cost	Accumulated Depreciation	Net Book Value	Estimated Useful Life
Land	$ 5,264	$ N/A	$ 5,264	N/A
Road:				
Rail and other track material	16,785	6,156	10,629	43
Ties	10,409	3,025	7,384	34
Ballast	5,561	1,595	3,966	34
Other roadway [a]	19,584	3,766	15,818	48
Total road	52,339	14,542	37,797	N/A
Equipment:				
Locomotives	9,792	3,861	5,931	19
Freight cars	2,229	929	1,300	24
Work equipment and other	1,040	301	739	19

Total equipment	13,061	5,091	7,970	N/A
Technology and other	1,117	493	624	12
Construction in progress	1,024	-	1,024	N/A
Total	$ 72,805	$ 20,126	$ 52,679	N/A

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

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12. Accounts Payable and Other Current Liabilities

Millions	Mar. 31, 2019	Dec. 31, 2018
Income and other taxes payable	$ 934	$ 694
Accounts payable	794	872
Current operating lease liabilities (Note 16)	417	-
Accrued wages and vacation	381	384
Accrued casualty costs	219	211
Interest payable	198	317
Equipment rents payable	107	107
Other	509	575
Total accounts payable and other current liabilities	$ 3,559	$ 3,160

13. Financial Instruments

Short-Term Investments – All of the Company's short-term investments consist of time deposits. These investments are considered level 2 investments and are valued at amortized cost, which approximates fair value. As of March 31, 2019, the Company had $90 million of short-term investments, of which $30 million are in a trust for the purpose of providing collateral for payment of certain other long-term liabilities, and as such are reclassified as other assets. All short-term investments have a maturity of less than one year and are classified as held-to-maturity. There were no transfers out of Level 2 during the three months ended March 31, 2019.

Fair Value of Financial Instruments – The fair value of our short- and long-term debt was estimated using a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt securities. All of the inputs used to determine the fair market value of the Corporation's long-term debt are Level 2 inputs and obtained from an independent source. At March 31, 2019, the fair value of total debt was $25.7 billion, approximately $0.6 billion more than the carrying value. At December 31, 2018, the fair value of total debt was $21.9 billion, approximately $0.5 billion less than the carrying value. The fair value of the Corporation's debt is a measure of its current value under present market conditions. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

14. Debt

Credit Facilities – At March 31, 2019, we had $2.0 billion of credit available under our revolving credit facility, which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility at any time during the three months ended March 31, 2019. Commitment fees and interest rates payable under the Facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The Facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The facility matures in June 2023 under a five-year term and requires UPC to maintain a debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) coverage ratio.

The definition of debt used for purposes of calculating the debt-to-EBITDA coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees, unfunded and vested pension benefits under Title IV of ERISA, and unamortized debt discount and deferred debt issuance costs. At March 31, 2019, the Company was in compliance with the debt-to-EBITDA coverage ratio, which allows us to carry up to $38.1 billion of debt (as defined in the Facility), and we had $26.0 billion of debt (as defined in the Facility) outstanding at that date. The Facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The Facility also includes a $150 million cross-default provision and a change-of-control provision.

During the three months ended March 31, 2019, we issued $2.95 billion and repaid $2.65 billion of commercial paper with maturities ranging from 1 to 31 days, and at March 31, 2019, we had $500 million of commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper

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

During the three months ended March 31, 2019, we issued the following unsecured, fixed-rate debt securities under our current shelf registration:

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

We used the net proceeds from this offering for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase programs. These debt securities include change-of-control provisions. At March 31, 2019, we had remaining authority to issue up to $3.0 billion of debt securities under our Shelf registration.

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

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

15. Variable Interest Entities

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

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

We are not considered to be the primary beneficiary and do not consolidate these VIEs because our actions and decisions do not have the most significant effect on the VIE’s performance and our fixed-price purchase options are not considered to be potentially significant to the VIEs. The future minimum lease payments associated with the VIE leases totaled $1.6 billion as of March 31, 2019.

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16. Leases

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

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

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

The following are additional details related to our lease portfolio:

Millions	Classification	Mar. 31, 2019
Assets		
Operating leases	Operating lease assets	$ 2,146
Finance leases	Net properties [a]	516
Total leased assets		$ 2,662
Liabilities		

Current		
Operating	Accounts payable and other current liabilities	$ 417
Finance	Debt due within one year	99
Noncurrent		
Operating	Operating lease liabilities	1,663
Finance	Debt due after one year	560
Total lease liabilities		$ 2,739

[a] Finance lease assets are recorded net of accumulated amortization of $717 million as of March 31, 2019.

The lease cost components are classified as follows:

Millions, for the Three Months Ended March 31,	Classification	2019
Operating lease cost [a]	Equipment and other rents	$ 93
Finance lease cost		
Amortization of leased assets	Depreciation	18
Interest on lease liabilities	Interest expense	9
Net lease cost		$ 120

[a] Includes short-term lease costs of $0.2 million and variable lease costs of $1.9 million.

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The following table presents aggregate lease maturities as of March 31, 2019:

Millions	Operating Leases	Finance Leases	Total
2019	$ 196	$ 72	$ 268
2020	384	143	527
2021	308	147	455
2022	273	130	403
2023	235	88	323
After 2023	1,040	199	1,239
Total lease payments	$ 2,436	$ 779	$ 3,215
Less: Interest [a]	356	120	476
Present value of lease liabilities	$ 2,080	$ 659	$ 2,739

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

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

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

	Mar. 31 2019
Weighted-average remaining lease term (years)	
Operating leases	9.0
Finance leases	6.6
Weighted-average discount rate	
Operating leases	3.7
Finance leases	5.3

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

Millions, for the Three Months Ended March 31,	2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 215
Operating cash flows from finance leases	17
Financing cash flows from finance leases	58
Leased assets obtained in exchange for new finance lease liabilities	-
Leased assets obtained in exchange for new operating lease liabilities	9

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17. Commitments and Contingencies

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

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

Our personal injury liability is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 94% of the recorded liability is related to asserted claims and approximately 6% is related to unasserted claims at March 31, 2019. Because of the uncertainty surrounding the ultimate outcome of personal injury claims, it is reasonably possible that future costs to settle these claims may range from approximately $266 million to $292 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,	2019	2018
Beginning balance	$ 271	$ 285
Current year accruals	18	19
Changes in estimates for prior years	(2)	(11)
Payments	(21)	(21)
Ending balance at March 31	$ 266	$ 272
Current portion, ending balance at March 31	$ 67	$ 70

We reassess our estimated insurance recoveries annually and have recognized an asset for estimated insurance recoveries at both December 31, 2018, and 2017. Any changes to recorded insurance recoveries are included in the above table in the Changes in estimates for prior years category.

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have identified 337 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 32 sites that are the subject of actions taken by the U.S. government, 21 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

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

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Our environmental liability activity was as follows:

Millions, for the Three Months Ended March 31,	2019	2018
Beginning balance	$ 223	$ 196
Accruals	10	16
Payments	(17)	(14)
Ending balance at March 31	$ 216	$ 198
Current portion, ending balance at March 31	$ 63	$ 57

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

Insurance – The Company has a consolidated, wholly-owned captive insurance subsidiary (the captive), that provides insurance coverage for certain risks including FELA claims and property coverage which are subject to reinsurance. The captive entered into annual reinsurance treaty agreements that insure workers compensation, general liability, auto liability and FELA risk. The captive cedes a portion of its FELA exposure through the treaty and assumes a proportionate share of the entire risk. The captive receives direct premiums, which are netted against the Company’s premium costs in other expenses in the Condensed Consolidated Statements of Income. The treaty agreements provide for certain protections against the risk of treaty participants’ non-performance, and we do not believe our exposure to treaty participants’ non-performance is material at this time. We record both liabilities and reinsurance receivables using an actuarial analysis based on historical experience in our Condensed Consolidated Statements of Financial Position. Effective January 2019, the captive insurance subsidiary no longer participates in the reinsurance treaty agreement. The Company established a trust in the fourth quarter of 2018 for the purpose of providing collateral as required under the reinsurance treaty agreement for prior years’ participation.

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

adverse effect on our consolidated financial condition, results of operations, or liquidity.

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

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

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

UPRR’s refund claims for 2008 – 2017 are pending with the IRS, and we expect IRS approval of these claims in 2019. These claims are considered gain contingencies and no refund amounts have been recognized in the Consolidated Financial Statements as of March 31, 2019. These claims will be recognized when UPRR receives final approval from the IRS allowing the refunds. When recognized, UPRR will reduce compensation and benefit expenses by $36 million and record approximately $3 million of interest in other income.

18. Share Repurchase Programs

On February 7, 2019, the Board of Directors approved a new share repurchase authorization, enabling the Company to buy up to 150 million of its common shares by March 31, 2022. The new authorization is effective April 1, 2019, and replaces the previous authorization of up to 120 million shares, which expired on March 31, 2019. As of March 31, 2019, we repurchased a total of $34.4 billion of our common stock since commencement of our repurchase programs in 2007. The following table represents shares repurchased in the first quarter of 2019 and 2018:

	Number of Shares Purchased		Average Price Paid	
	2019	2018	2019	2018
First quarter [a]	18,149,450	9,259,004	$ 165.79	$ 132.84

[a] Includes 11,795,930 shares repurchased in February 2019 under accelerated share repurchase programs.

Management's assessments of market conditions and other pertinent factors guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the

sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Open market repurchases are recorded in treasury stock at cost, which includes any applicable commissions and fees.

Accelerated Share Repurchase Programs – On February 25, 2019, the Company established accelerated share repurchase programs (ASRs) with two financial institutions to repurchase shares of our common stock. On February 26, 2019, the Company received 11,795,930 shares of its common stock repurchased under the ASRs for an aggregate of $2.5 billion. When the shares were received, the exchange was accounted for as an equity transaction with $2.0 billion of the aggregate amount allocated to treasury stock and the remaining $0.5 billion allocated to paid-in-surplus. The Company reflected the shares received as a repurchase of common stock in the weighted average common shares outstanding calculation for basic and diluted earnings per share.

Under these ASRs, we paid a specified amount to the financial institutions and received an initial delivery of shares. This delivery of shares represents the initial and likely minimum number of shares that we may receive under the ASRs. The final number of shares to be repurchased under the ASRs will be based on the volume weighted average price of the Company's common stock during the ASR term, less a discount and subject to potential adjustments pursuant to the terms of such ASR. The final settlement is expected to be completed prior to the end of the third quarter of 2019, but the ASRs may be terminated early in certain circumstances.

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19. Related Parties

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

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

UPRR had $1.3 billion recognized as investments related to TTX in our Condensed Consolidated Statements of Financial Position as of both March 31, 2019, and December 31, 2018. TTX car hire expenses of $105 million for both the three months ended March 31, 2019, and 2018, are included in equipment and other rents in our Condensed Consolidated Statements of Income. In addition, UPRR had accounts payable to TTX of $69 million and $66 million as of March 31, 2019, and December 31, 2018, 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, 2019, Compared to

Three Months Ended March 31, 2018

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

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

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

Available Information

Our Internet website is www.up.com. We make available free of charge on our website (under the "Investors" caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; 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. We provide these previously filed reports as a convenience and their contents reflect only information that was true and correct as of the date of the report. We assume no obligation to update this historical information. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Corporate Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

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

Critical Accounting Policies and Estimates

We base our discussion and analysis of our financial condition and results of operations upon our Condensed Consolidated Financial Statements. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ materially from actual results, the impact on the Condensed Consolidated Financial Statements may be material. Our critical accounting policies are available in Item 7 of our 2018 Annual Report on Form 10-K. Changes to our accounting policies as a result of adopting ASU 2016-02 are discussed within Note 16 of the Condensed Consolidated Financial Statements.

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RESULTS OF OPERATIONS

Quarterly Summary

We reported earnings of $1.93 per diluted share on net income of $1.4 billion in the first quarter of 2019 compared to earnings of $1.68 per diluted share on net income of $1.3 billion for the first quarter of 2018.

Freight revenues decreased 2% in the first quarter compared to the same period in 2018 driven by a 2% volume decline. Average revenue per car (ARC) was essentially flat as core pricing gains and higher fuel surcharge revenue were offset by negative mix of traffic. Growth in shipments of intermodal, rock, petroleum products, plastics, and steel were more than offset by declines in coal, frac sand, domestic intermodal, grain, grain products, and auto parts shipments.

Service disruptions were caused by a series of significant weather events throughout the quarter. Heavy snowfall and harsh winter conditions in the Midwest and Pacific Northwest were followed by widespread flooding across the central portion of our network. These weather events negatively impacted carload volumes across various lines of business and drove additional operating expenses in the quarter, adversely affecting earnings by approximately $0.15 per diluted share. Despite the disruptions, we remained focused on productivity initiatives and implementation of Unified Plan 2020, the Company's plan for operating a safe, reliable and efficient railroad by increasing reliability of our service product, reducing variability in network operations, and improving resource utilization costs. As part of this implementation, network operations improved significantly throughout the fourth quarter and into 2019. Year-over-year we saw a 6% improvement in locomotive productivity and a 7% improvement in freight car velocity.

Although we incurred additional costs from the weather events, including higher labor, equipment rental, locomotive maintenance, and fuel consumption costs, they were more than offset by lower fuel prices, productivity savings and a $42 million reduction of compensation expense due to refund claims for railroad retirement taxes on certain stock awards and bonus payments (employment tax refund). The reduction in expenses more than offset lower top line results, generating operating income growth of 1% and 1.0 point improvement in the operating ratio.

Operating Revenues

Millions, for the Three Months Ended March 31,	2019	2018	% Change

Freight revenues	$ 5,010	$ 5,122	(2)	%
Other subsidiary revenues	223	217	3	
Accessorial revenues	133	121	10	
Other	18	15	20	
Total	$ 5,384	$ 5,475	(2)	%

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

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

Freight revenues decreased 2% during the first quarter of 2019 compared to 2018, resulting from a 2% volume decline and negative mix of traffic partially offset by core pricing gains and higher fuel surcharge revenue. Weather-related disruptions negatively impacted coal, domestic intermodal, grain products and lumber volumes year-over-year. Fewer shipments of frac sand, grain and auto parts partially offset by growth in international intermodal, rock, petroleum products and plastics drove additional volume declines.

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Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were $398 million in the first quarter of 2019 compared to $353 million in the same period of 2018. Higher fuel surcharge revenue resulted from lag in fuel surcharge recovery due to the sequential decrease in fuel price from the fourth quarter of 2018 (it can generally take up to two months for changing fuel prices to affect fuel surcharge recoveries) partially offset by volume declines.

Other revenues increased in the first quarter compared to 2018 due to higher accessorial charges focused on incentivizing customers' efficient use of Company assets. Higher revenues at our subsidiaries, primarily those that broker intermodal, transload, and refrigerated warehousing logistics services also contributed to the first quarter increase compared to 2018.

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

Freight Revenues

Millions, for the Three Months Ended March 31,	2019	2018	% Change
Agricultural Products	$ 1,067	$ 1,098	(3) %
Energy	982	1,173	(16)
Industrial	1,410	1,340	5
Premium	1,551	1,511	3
Total	$ 5,010	$ 5,122	(2) %

Revenue Carloads

Thousands, for the Three Months Ended March 31,	2019	2018	% Change
Agricultural Products	259	279	(7) %
Energy	358	419	(15)
Industrial	429	411	4
Premium [a]	1,041	1,016	2
Total	2,087	2,125	(2) %

Average Revenue per Car for the Three Months Ended March 31,	2019	2018	% Change
Agricultural Products	$ 4,123	$ 3,942	5 %
Energy	2,740	2,799	(2)
Industrial	3,292	3,262	1
Premium	1,489	1,487	-
Average	$ 2,401	$ 2,411	- %

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

Agricultural Products – Freight revenue from agricultural products shipments decreased in the first quarter of 2019 compared to 2018 due to 7% decline in volume partially offset by core pricing gains and higher fuel surcharge revenue. In the first quarter, volume declines were driven by lower exports of grain to China, and lower shipments of several products due to weather-related challenges compared to 2018.

Energy – Freight revenue from energy shipments decreased 16% in the first quarter compared to 2018 due to a 15% decline in volume and negative mix of traffic, partially offset by core pricing gains and higher fuel surcharge revenue. Frac sand shipments, which represents 11% of energy shipments in 2019, declined 45% in the first quarter compared to last year as regional sand supplies in the Permian displaced select shipments originating from the upper Midwest. In addition, coal and coke shipments, which represents 70% of energy shipments in 2019, declined 14% due to weather-related operational challenges, a commercial contract loss, and certain UPRR-served facility retirements. Growth in petroleum shipments (both crude and refined) due to strong drilling activity partially offset the sand and coal volume declines.

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Industrial – Freight revenue from industrial shipments increased in the first quarter of 2019 compared to 2018 due to volume growth, core pricing gains, and higher fuel surcharge revenue, partially offset by negative mix of traffic. Volume grew 4% in the first quarter compared to 2018 driven by strong market demand in construction products, plastics and metals, while lumber shipments decreased due to weather-related challenges compared to 2018.

Premium – Freight revenue from premium shipments increased in the first quarter compared to 2018 due to core pricing gains, volume growth, and higher fuel surcharge revenue, partially offset by negative mix of traffic. Volume grew 2% in the first quarter compared to 2018 driven by growth in international intermodal shipments due to surge in shipments and newly secured business. These volume increases were partially offset by declines in domestic intermodal shipments, including containerized automotive parts, as shipments moved via truck due to weather-related challenges, in addition to increased truck capacity.

Mexico Business – Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business decreased 1% to $576 million in the first quarter of 2019 compared to 2018 driven by 7% decline in volume, partially offset by higher fuel surcharge revenue, and core pricing gains. The decrease in volume was driven by shipments of automotive parts, international intermodal, finished vehicles, and beverage shipments, partially offset by growth in petroleum products.

Operating Expenses

Millions, for the Three Months Ended March 31,	2019	2018	% Change
Compensation and benefits	$ 1,205	$ 1,273	(5) %
Purchased services and materials	576	599	(4)
Depreciation	549	543	1
Fuel	531	589	(10)
Equipment and other rents	258	266	(3)
Other	305	266	15
Total	$ 3,424	$ 3,536	(3) %

Operating expenses decreased $112 million in the first quarter compared to 2018 driven by productivity savings, lower fuel price, lower compensation expense due to the employment tax refund (see Note 17 of the Condensed Consolidated Financial Statements), and lower management and administrative wage and benefit costs. Additional costs due to weather-related challenges, expense associated with a workforce reduction, higher destroyed equipment and freight damage costs, depreciation and inflation partially offset these decreases compared to 2018.

Compensation and Benefits – Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. For the first quarter, expenses decreased 5% compared to 2018 due to the employment tax refund and lower management and administrative wage and benefit costs. Expenses associated with a workforce reduction, increased costs due to weather-related challenges and wage inflation partially offset the 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 and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Purchased services and materials decreased 4% in the first quarter compared to 2018. Lower locomotive repair expense due to a smaller active fleet in service and lower costs for services purchased from outside contractors primarily drove the decrease in the first quarter. Conversely, higher costs associated with weather-related challenges, derailments and volume-related intermodal contracting costs partially offset these decreases versus 2018.

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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 2019 compared to 2018.

Fuel – Fuel includes locomotive fuel and fuel for highway and non-highway vehicles and heavy equipment. A 7% decline in gross ton-miles and lower locomotive diesel fuel prices, which averaged $2.07 per gallon (including taxes and transportation costs) in the first quarter of 2019, compared to $2.13 per gallon in the same period in 2018, drove the decrease in the first quarter compared to the same period in 2018. While the fuel consumption rate, computed as gallons of fuel consumed divided by gross ton-miles in thousands, increased 1% compared to the first quarter of 2018, driven by weather-related challenges.

Equipment and Other Rents – Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; and office and other rentals. Equipment and other rents expense decreased 3% in the first quarter compared to 2018, driven by lower locomotive and freight car lease expenses, decreased car rent expense due to volume declines, and improved cycle time partially offset by additional cost associated with weather-related challenges.

Other – Other expenses include state and local taxes; freight, equipment and property damage; utilities, insurance, personal injury, environmental, employee travel, telephone and cellular, computer software, bad debt and other general expenses. Other costs increased 15% in the first quarter compared to 2018 driven primarily by higher destroyed equipment and freight loss and damage costs.

Non-Operating Items

Millions, for the Three Months Ended March 31,	2019	2018	% Change F %
Other income/(expense)	$ 77	$ (42)	
Interest expense	(247)	(186)	33
Income taxes	(399)	(401)	-

Other Income/(Expense) – Other income/(expense) increased in the first quarter of 2019 as a result of $27 million in interest income associated with the employment tax refund in 2019 and a decrease of $85 million in expense associated with early-extinguishment of outstanding debentures and mortgage bonds recognized in the first quarter of 2018.

Interest Expense – Interest expense increased in the first quarter of 2019 compared to 2018 due to an increase in the weighted-average debt level of $23.6 billion in 2019 compared to $17.1 billion in 2018, partially offset by a lower effective interest rate of 4.3% in 2019 compared 4.4% in 2018.

Income Taxes – Income taxes were lower in the first quarter of 2019 compared to 2018, driven by higher excess tax benefits from the exercise of stock options, partially offset by higher income. Our effective tax rates for the first quarter of 2019 and 2018 were 22.3% and 23.4%, respectively.

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OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report a number of key performance measures weekly to the Association of American Railroads (AAR). We provide this data on our website at www.up.com/investor/aar-stb_reports/index.htm.

Operating/Performance Statistics

Railroad performance measures are included in the table below:

For the Three Months Ended March 31,	2019	2018	% Change
Gross ton-miles (GTMs) (billions)	210.3	226.9	(7) %
Revenue ton-miles (billions)	106.7	117.4	(9)
Freight car velocity (daily miles per car)	185	173	7
Average train speed (miles per hour) [a]	23.3	24.8	(6)
Average terminal dwell time (hours) [a]	26.6	33.0	(19)
Locomotive productivity (GTMs per horsepower day)	111	105	6
Workforce productivity (car miles per employee)	812	826	(2)
Employees (average)	40,053	41,735	(4)
Operating ratio	63.6	64.6	(1.0) pts

[a] As reported to the AAR.

Gross and Revenue Ton-Miles – Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles and revenue ton-miles decreased 7% and 9%, respectively, during the first quarter of 2019 compared to 2018, driven by a 2% decline in carloadings. Changes in commodity mix drove the variance in year-over-year decreases between gross ton-miles, revenue ton-miles and carloads.

Freight Car Velocity – Freight car velocity is average daily car miles per car. Drivers of this metric are the speed of the train between terminals (average train speed) and the time a rail car spends at the terminals (average terminal dwell time). Implementation of Unified Plan 2020 drove the 7% improvement. Average terminal dwell time in the first quarter of 2018 decreased 19%, compared to the same period in 2018 largely due to a decrease in our freight car inventory levels, improved processes in the terminals and transportation plan changes to eliminate switches. Conversely, weather-related disruptions did impact our average train speed, as it declined 6% year-over-year.

Locomotive Productivity – Locomotive productivity is gross ton-miles per average daily locomotive horsepower. Locomotive productivity increased 6% year-over-year and was flat with fourth quarter of 2018 as we reduced our active locomotive fleet by over 15% since the first quarter of 2018.

Workforce Productivity – Workforce productivity is average daily car miles per employee. Workforce productivity declined 2% as average daily car miles decreased 6% while employees decreased 4% compared to the first quarter of 2018. Lower carload volumes and the major weather events drove the decline in average daily car miles. The 4% decline in employee levels was driven by a 2% decline in carload volumes and initiatives to further right-size the workforce. At the end of the first quarter, approximately 1,100 employees across all crafts were either furloughed or in alternate work status due primarily to a smaller active locomotive fleet. Weather-related operational challenges required a temporary increase in train crew resources, partially offsetting some of the year-over-year reductions.

Operating Ratio – Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our first quarter operating ratio of 63.6% improved 1.0 point compared to 2018 mainly driven by core pricing gains, productivity, lower fuel prices, and the employment tax refund which were offset by costs associated with the major weather events, other cost hurdles, and inflation.

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Adjusted Debt / Adjusted EBITDA

Millions, Except Ratios for the Trailing Twelve Months Ended [a]	Mar. 31, 2019	Dec. 31, 2018
Net income	$ 6,047	$ 5,966
Less:		
Other income	213	94
Add:		
Income tax expense	1,773	1,775
Depreciation	2,197	2,191
Interest expense	931	870
EBITDA	$ 10,735	$ 10,708
Interest on operating lease liabilities [b]	77	84
Adjusted EBITDA (a)	$ 10,812	$ 10,792
Debt	$ 25,112	$ 22,391
Operating lease liabilities [c]	2,080	2,271
Unfunded pension and OPEB, net of taxes of $128 and $135	446	456
Adjusted debt (b)	$ 27,638	$ 25,118
Adjusted debt / Adjusted EBITDA (b/a)	2.6	2.3

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

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

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

Adjusted debt to Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization and interest on operating lease liabilities) is considered a non-GAAP financial measure by SEC Regulation G and Item 10 of SEC Regulation S-K and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating the Company’s ability to sustain given debt levels (including leases) with the cash generated from operations. In addition, a comparable measure is used by rating agencies when reviewing the Company’s credit rating. Adjusted debt to Adjusted EBITDA should be considered in

addition to, rather than as a substitute for, net income. The table above provides reconciliations from net income to adjusted debt to adjusted EBITDA. At both March 31, 2019 and December 31, 2018, the incremental borrowing rate on operating lease liabilities was 3.7%.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

Cash Flows

Millions, for the Three Months Ended March 31,	2019	2018
Cash provided by operating activities	$ 1,959	$ 1,901
Cash used in investing activities	(784)	(919)
Cash used in financing activities	(1,405)	(1,209)
Net change in cash, cash equivalents and restricted cash	$ (230)	$ (227)

Operating Activities

Cash provided by operating activities increased in the first three months of 2019 compared to the same period of 2018 due to higher net income.

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Investing Activities

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

The table below details cash capital investments:

Millions, for the Three Months Ended March 31,	2019	2018
Rail and other track material	$ 142	$ 128
Ties	112	114
Ballast	48	45
Other [a]	103	86
Total road infrastructure replacements	405	373
Line expansion and other capacity projects	100	42
Commercial facilities	26	36
Total capacity and commercial facilities	126	78
Locomotives and freight cars [b]	94	300
Positive train control	17	41
Technology and other	110	118
Total cash capital investments	$ 752	$ 910

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

[b]Locomotives and freight cars include lease buyouts of $30 million in 2019 and $210 million in 2018.

Capital Plan

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

Financing Activities

Cash used in financing activities increased $196 million in the first three months of 2019 compared to the same period of 2018, driven by a $2.3 billion increase in our share repurchase programs and a $58 million increase in dividends paid, partially offset by a $2.2 billion net increase in additional debt and commercial paper.

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

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

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

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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,	2019	2018
Cash provided by operating activities	$ 1,959	$ 1,901
Cash used in investing activities	(784)	(919)
Dividends paid	(626)	(568)
Free cash flow	$ 549	$ 414

Share Repurchase Programs

On February 7, 2019, the Board of Directors approved a new share repurchase authorization, enabling the Company to buy up to 150 million of its common shares by March 31, 2022. The new authorization is effective April 1, 2019, and replaces the previous authorization of up to 120 million shares, which expired on March 31, 2019. As of March 31, 2019, we repurchased a total of $34.4 billion of our common stock since commencement of our repurchase programs in 2007. The table below represents shares repurchased in the first quarter of 2019 and 2018.

	Number of Shares Purchased		Average Price Paid	
	2019	2018	2019	2018
First quarter [a]	18,149,450	9,259,004	$ 165.79	$ 132.84

[a] Includes 11,795,930 shares repurchased in February 2019 under accelerated share repurchase programs.

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

Accelerated Share Repurchase Programs – On February 25, 2019, the Company established accelerated share repurchase programs (ASRs) with two financial institutions to repurchase shares of our common stock. On February 26, 2019, the Company received 11,795,930 shares of its common stock repurchased under the ASRs for an aggregate of $2.5 billion. When the shares were received, the exchange was accounted for as an equity transaction with $2.0 billion of the aggregate amount allocated to treasury stock and the remaining $0.5 billion allocated to paid-in-surplus. The Company reflected the shares received as a repurchase of common stock in the weighted average common shares outstanding calculation for basic and diluted earnings per share.

Under these ASRs, we paid a specified amount to the financial institutions and received an initial delivery of shares. This delivery of shares represents the initial and likely minimum number of shares that we may receive under the ASRs. The final number of shares to be repurchased under the ASRs will be based on the volume weighted average price of the Company's common stock during the ASR term, less a discount and subject to potential adjustments pursuant to the terms of such ASR. The final settlement is expected to be completed prior to the end of the third quarter of 2019, but the ASRs may be terminated early in certain circumstances.

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

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

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The following tables identify material obligations and commitments as of March 31, 2019:

Contractual Obligations		Apr. 1 through Dec. 31,	Payments Due by Dec. 31,				After	
Millions	Total	2019	2020	2021	2022	2023	2023	Other
Debt [a]	$ 42,538	$ 1,814	$ 1,790	$ 2,036	$ 2,159	$ 2,124	$ 32,615	$ -
Operating leases [b]	2,436	196	384	308	273	235	1,040	-
Capital lease obligations [c]	779	72	143	147	130	88	199	-
Purchase obligations [d]	3,270	1,754	1,058	275	57	38	52	36
Other postretirement benefits [e]	358	37	37	37	36	36	175	-
Income tax contingencies [f]	176	99	-	-	-	-	-	77
Total contractual obligations	$ 49,557	$ 3,972	$ 3,412	$ 2,803	$ 2,655	$ 2,521	$ 34,081	$ 113

[a]Excludes capital lease obligations of $659 million, as well as unamortized discount and deferred issuance costs of $(836) million. Includes an interest component of $17,249 million.

[b] Includes leases for locomotives, freight cars, other equipment, and real estate. Includes an interest component of $356 million.

[c]Represents total obligations, including interest component of $120 million.

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

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

[f]Future cash flows for income tax contingencies reflect the recorded liabilities and assets for unrecognized tax benefits, including any interest or penalties, as of March 31, 2019. For amounts where the year of settlement is uncertain, they are included in the Other column.

Other Commercial Commitments		Apr. 1 through Dec. 31,	Amount of Commitment Expiration by Dec. 31,				After
Millions	Total	2019	2020	2021	2022	2023	2023

Credit facilities [a]	$	2,000	$	-	$	-	$	-	$	-	$	2,000	$	-
Receivables securitization facility [b]		650		650		-		-		-		-		-
Guarantees [c]		22		7		5		5		5		-		-
Standby letters of credit [d]		19		12		7		-		-		-		-
Total commercial commitments	$	2,691	$	669	$	12	$	5	$	5	$	2,000	$	-

[a] None of the credit facility was used as of March 31, 2019.

[b] $400 million of the receivables securitization facility was utilized as of March 31, 2019, which is accounted for as debt. The full program matures in July 2019.

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

[d]None of the letters of credit were drawn upon as of March 31, 2019.

OTHER MATTERS

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

Indemnities – We are contingently obligated under a variety of indemnification arrangements, although in some cases the extent of our potential liability is limited, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability

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or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

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

CAUTIONARY INFORMATION

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

Forward-looking statements and information reflect the good faith consideration by management of currently available information, and may be based on underlying assumptions believed to be reasonable under the circumstances. However, such information and assumptions (and, therefore, such forward-looking statements and information) are or may be subject to variables or unknown or unforeseeable events or circumstances over which management has little or no influence or control. The Risk Factors in Item 1A of our 2018 Annual Report on Form 10-K, filed February 8, 2019, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements, and this report, including this Item 2, should be read in conjunction with these Risk Factors. To the extent circumstances require or we deem it otherwise necessary, we will update or amend these risk factors in a Form 10-Q or Form 8-K. Information regarding new risk factors or material changes to our risk factors, if any, is set forth in Item 1A of Part II of this report. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2018 Annual Report on Form 10-K.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation’s management, including the Corporation’s Chief Executive Officer (CEO) and Executive Vice President and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Corporation’s disclosure controls and procedures pursuant

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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.

During the first quarter of 2019, we implemented new internal controls to support adoption of the new lease accounting standard ASU No. 2016-02, Leases (Topic 842).

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Environmental Matters

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

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

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Environmental, Item 7 of our 2018 Annual Report on Form 10-K.

Other Matters

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

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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). For additional information on Oxbow, please refer to Item 3. Legal Proceedings, under Other Matters, Antitrust Litigation in our most recently filed Annual Report on Form 10-K for the year ended December 31, 2018.

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

In 2016, a lawsuit was filed in U.S. District Court for the Western District of Washington alleging violations of the Americans with Disabilities Act (ADA) and Genetic Information Nondiscrimination Act relating to Fitness for Duty requirements for safety sensitive positions.

On August 8, 2016, the U.S. District Court for the Western District of Washington granted plaintiffs' motion to transfer their claim to the U.S. District Court of Nebraska. On February 5, 2019, the U.S. District Court of Nebraska granted plaintiffs’ motion to certify the ADA allegations as a class action. We filed a petition for permission to appeal the U.S. District Court’s decision to the Eighth Circuit Court of Appeals. On March 13, 2019, the Eighth Circuit granted Union Pacific’s Petition. We have also subsequently filed a Motion to Stay the U.S. District Court proceedings pending a decision by the Eighth Circuit. We continue to deny these allegations, believe this lawsuit is without merit and will defend our actions. We believe this lawsuit will not have a material adverse effect on any of our results of operations, financial condition, and liquidity.

Item 1A. Risk Factors

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

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

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

Period	Total Number of Shares Purchased [a]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program [b]	Maximum Number of Shares That May Be Purchased Under Current Authority [c]
Jan. 1 through Jan. 31	3,046,226	$ 150.78	2,766,800	23,661,319
Feb. 1 through Feb. 28	14,184,118	168.90	13,897,650	9,763,669
Mar. 1 through Mar. 31	1,491,879	164.61	1,485,000	8,278,669
Total	18,722,223	$ 165.61	18,149,450	N/A

[a] Total number of shares purchased during the quarter includes 572,773 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] Total number of shares purchased as part of a publicly announced plan or program includes 11,795,930 shares repurchased in February under ASRs. See Note 18 to the Condensed Consolidated Financial Statements for additional information.

[c] On February 7, 2019, the Board of Directors approved a new share repurchase authorization, enabling the Company to buy up to 150 million of its common shares by March 31, 2022. The new authorization is effective April 1, 2019, and replaces the previous authorization of up to 120 million shares, which expired on March 31, 2019.

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
31(a)	Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz.	
31(b)	Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert M. Knight, Jr.	
32	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley	

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

Report on Form 10-Q for the period ended March 31, 2019 (filed with the SEC on April 18, 2019), is formatted in XBRL and submitted electronically herewith: (i) Condensed Consolidated Statements of Income for the periods ended March 31, 2019 and 2018, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended March 31, 2019 and 2018, (iii) Condensed Consolidated Statements of Financial Position at March 31, 2019 and December 31, 2018, (iv) Condensed Consolidated Statements of Cash Flows for the periods ended March 31, 2019 and 2018, (v) Condensed Consolidated Statements of Changes in Common Shareholders' Equity for the periods ended

	March 31, 2019 and 2018, and (vi) the Notes to the Condensed Consolidated Financial Statements.
Incorporated by Reference	
3(a)	Restated Articles of Incorporation of UPC, as amended and restated through June 27, 2011, and as further amended May 15, 2014, are incorporated herein by reference to Exhibit 3(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.
3(b)	By-Laws of UPC, as amended, effective November 19, 2015, are incorporated herein by reference to Exhibit 3.2 to the Corporation's Current Report on Form 8-K dated November 19, 2015.
4(a)	Form of 2.950% Note due 2022 is incorporated by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K

	dated February 19, 2019.
4(b)	Form of 3.150% Note due 2024 is incorporated by reference to Exhibit 4.2 to the Corporation's Current Report on Form 8-K dated February 19, 2019.
4(c)	Form of 3.700% Note due 2029 is incorporated by reference to Exhibit 4.3 to the Corporation's Current Report on Form 8-K dated February 19, 2019.
4(d)	Form of 4.300% Note due 2049 is incorporated by reference to Exhibit 4.4 to the Corporation's Current Report on Form 8-K dated February 19, 2019.

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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 18, 2019

UNION PACIFIC CORPORATION (Registrant)

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

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