UNION PACIFIC RAILROAD COMPANY and CONSOLIDATED SUBSIDIARY COMPANIES

Condensed Consolidated Financial Statements for the Quarterly Period Ended March 31, 2011

UNION PACIFIC RAILROAD COMPANY and
CONSOLIDATED SUBSIDIARY COMPANIES

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Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions, *for the Three Months Ended March 31,*	***2011***	*2010*
Operating revenues:		
Freight revenues	**$ 4,248**	$ 3,755
Other revenues	**237**	204
Total operating revenues	**4,485**	3,959
Operating expenses:		
Compensation and benefits	**1,150**	1,043
Fuel	**826**	583
Purchased services and materials	**469**	428
Depreciation	**395**	366
Equipment and other rents	**301**	289
Other	**206**	261
Total operating expenses	**3,347**	2,970
Operating income	**1,138**	989
Other income (Note 5)	**35**	17
Interest expense	**(115)**	(116)
Income before income taxes	**1,058**	890
Income taxes	**(389)**	(339)
Net income	**$ 669**	$ 551

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

Condensed Consolidated Statements of Financial Position (Unaudited)

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions	***Mar. 31, 2011***	*Dec. 31, 2010*
Assets		
Current assets:		
Cash and cash equivalents	**$ 568**	$ 368
Accounts receivable, net (Note 8)	**1,204**	1,116
Materials and supplies	**582**	534
Current deferred income taxes (Note 6)	**287**	243
Other current assets	**233**	326
Total current assets	**2,874**	2,587
Investments	**1,123**	1,099
Net properties (Note 9)	**38,503**	38,241
Other assets	**190**	214
Total assets	**$ 42,690**	$ 42,141
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 10)	**$ 2,458**	$ 2,323
Third-party debt due within one year	**180**	229
Total current liabilities	**2,638**	2,552
Intercompany borrowings from UPC (Note 11)	**2,369**	2,608
Third-party debt due after one year	**2,087**	2,075
Deferred income taxes (Note 6)	**11,777**	11,549
Other long-term liabilities	**1,839**	1,865
Commitments and contingencies (Note 14)		
Total liabilities	**20,710**	20,649
Common shareholders' equity:		
Common shares, $10.00 par value, 9,200 authorized; 4,465 outstanding		
Class A shares, $10.00 par value, 800 authorized; 388 outstanding	**-**	-
Paid-in-surplus	**4,782**	4,782
Retained earnings	**17,926**	17,444
Accumulated other comprehensive loss (Note 7)	**(728)**	(734)
Total common shareholders' equity	**21,980**	21,492
Total liabilities and common shareholders' equity	**$ 42,690**	$ 42,141

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions, for the Three Months Ended March 31,	***2011***	*2010*
Operating Activities		
Net income	**$ 669**	$ 551
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**395**	366
Deferred income taxes and unrecognized tax benefits	**170**	54
Net gain on non-operating asset dispositions	**(1)**	(4)
Other operating activities, net	**40**	(1)
Changes in current assets and liabilities:		
Accounts receivable, net (Note 8)	**(88)**	(543)
Materials and supplies	**(48)**	(31)
Other current assets	**93**	63
Accounts payable and other current liabilities	**135**	265
Cash provided by operating activities	**1,365**	720
Investing Activities		
Capital investments	**(602)**	(461)
Proceeds from asset sales	**11**	12
Acquisition of equipment pending financing	**(36)**	-
Proceeds from sale of assets financed	**36**	-
Other investing activities, net	**(70)**	(43)
Cash used in investing activities	**(661)**	(492)
Financing Activities		
Intercompany payments, net (Note 11)	**(239)**	(238)
Dividends paid to UPC	**(187)**	(137)
Debt repaid	**(77)**	(353)
Debt issued	**-**	400
Other financing activities, net	**(1)**	(1)
Cash used in financing activities	**(504)**	(329)
Net change in cash and cash equivalents	**200**	(101)
Cash and cash equivalents at beginning of year	**368**	461
Cash and cash equivalents at end of period	**$ 568**	$ 360
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	**$ 73**	$ 60
Capital lease financings	**68**	-
Cash (paid)/refunded for:		
Interest, net of amounts capitalized	**$ (131)**	$ (132)
Income taxes	**146**	127

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

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

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions, except share amounts	*Common Shares*	*Class A Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*AOCI [a]*	*Total*
Balance at January 1, 2010	4,465	388	$ -	$ 4,782	$ 15,284	$ (654)	$ 19,412
Comprehensive income:							
Net income			-	-	551	-	551
Other comp. income			-	-	-	6	6
Total comp. income (Note 7)			-	-	551	6	557
Cash dividends declared	-	-	-	-	(137)	-	(137)
Balance at March 31, 2010	4,465	388	$ -	$ 4,782	$ 15,698	$ (648)	$ 19,832
Balance at December 31, 2010	4,465	388	$ -	$ 4,782	$ 17,444	$ (734)	$ 21,492
Comprehensive income:							
Net income			-	-	669	-	669
Other comp. income			-	-	-	6	6
Total comp. income (Note 7)			-	-	669	6	675
Cash dividends declared	-	-	-	-	(187)	-	(187)
Balance at March 31, 2011	**4,465**	**388**	**$ -**	**$ 4,782**	**$ 17,926**	**$ (728)**	**$ 21,980**

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (See Note 7)

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

Notes to the Condensed Consolidated Financial Statements (Unaudited)
Union Pacific Railroad Company and Consolidated Subsidiary Companies

For purposes of this report, unless the context otherwise requires, all references herein to the "Company", "we", "us", and "our" mean Union Pacific Railroad Company and Consolidated Subsidiary Companies. Union Pacific Railroad Company, together with our wholly-owned and majority-owned subsidiaries, is an indirect wholly-owned subsidiary of Union Pacific Corporation, herein "the Corporation" or "UPC".

1. Basis of Presentation

We are a Class I railroad incorporated in Delaware and, together with a number of wholly-owned and majority owned subsidiaries, we operate various railroad and railroad related businesses. 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). Our Consolidated Statement of Financial Position at December 31, 2010, is derived from audited financial statements. This Quarterly Report should be read in conjunction with our 2010 Annual Consolidated Financial Statements and notes thereto. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results for the entire year ending December 31, 2011.

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

Subsequent Events Evaluation – We evaluated the effects of all subsequent events through May 16, 2011, the report issuance date.

2. Operations and Segmentation

We have one reportable operating segment. Although revenues are analyzed by commodity group, we analyze the net financial results as one segment due to the integrated nature of our rail network. The following table provides revenue by commodity group:

Millions, for the Three Months Ended March 31,	***2011***	*2010*
Agricultural	**$ 807**	$ 730
Automotive	**342**	305
Chemicals	**664**	587
Energy	**952**	844
Industrial Products	**690**	598
Intermodal	**793**	691
Total freight revenues	**$ 4,248**	$ 3,755
Other revenues	**237**	204
Total operating revenues	**$ 4,485**	$ 3,959

Although our revenues are principally derived from customers domiciled in the United States, the ultimate points of origination or destination for some products transported are outside the U.S.

3. Stock-Based Compensation

We participate in the Corporation's stock incentive programs. The Corporation has several stock-based compensation plans under which employees receive stock options, nonvested retention shares, and nonvested stock units. We refer to the nonvested shares and stock units collectively as "retention awards". New shares are issued by UPC when retention shares vest.

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

Millions, for the Three Months Ended March 31,	***2011***	*2010*
Stock-based compensation, before tax:		
Stock options	**$ 3**	$ 3
Retention awards	**12**	9
Total stock-based compensation, before tax	**$ 15**	$ 12
Total stock-based compensation, after tax	**$ 9**	$ 7

Stock Options – The fair value of UPC's stock option awards is estimated using the Black-Scholes option pricing model. Groups of employees that have similar historical and expected exercise behavior are considered separately for valuation purposes. The table below shows the year-to-date weighted-average assumptions used for valuation purposes:

Weighted-Average Assumptions	***2011***	*2010*
Risk-free interest rate	**2.3%**	2.4%
Dividend yield	**1.6%**	1.8%
Expected life (years)	**5.3**	5.4
Volatility	**35.9%**	35.2%
Weighted-average grant-date fair value of options granted	**$ 28.45**	$ 18.26

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

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, 2011 are subject to performance or market-based vesting conditions.

At March 31, 2011, there was $18 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.5 years. Additional information regarding stock option exercises appears in the table below:

Millions, for the Three Months Ended March 31,	***2011***	*2010*
Intrinsic value of stock options exercised	**$ 25**	$ 11
UPC's tax benefit realized from option exercises	**9**	4
Aggregate grant-date fair value of stock options vested	**11**	12

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

Retention awards are granted at no cost to the employee and vest over periods lasting up to four years. At March 31, 2011, there was $89 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.2 years.

Performance Retention Awards – In February 2011, UPC's Board of Directors approved performance stock unit grants. Other than different performance targets, the basic terms of these performance stock units are identical to those granted in February 2009 and February 2010, including using annual return on invested capital (ROIC) as the performance measure. The Corporation defines ROIC as net operating profit adjusted for interest expense (including interest on the present value of operating leases) and taxes on interest divided by average invested capital adjusted for the present value of operating leases.

Stock units awarded to selected employees under these grants are subject to continued employment for 37 months and the attainment of certain levels of ROIC. We expense the fair value of the units that are probable of being earned based on the Corporation's forecasted ROIC over the 3-year performance period. We measure the fair value of these performance stock units based upon the closing price of the underlying UPC 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 2011 grant were as follows:

For the Three Months Ended March 31,	*2011*
Dividend per share per quarter	$ 0.38
Risk-free interest rate at date of grant	1.2%

At March 31, 2011, there was $31 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.8 years. This expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

4. Retirement Plans

Pension and Other Postretirement Benefits

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

Other Postretirement Benefits (OPEB) – We provide medical and life insurance benefits for eligible retirees through the Corporation's programs. 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 and, if necessary, amortized as pension or OPEB expense.

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

	Pension		*OPEB*	
Millions	***2011***	*2010*	***2011***	*2010*
Service cost	**$ 11**	$ 11	**$ 1**	$ 1
Interest cost	**36**	35	**4**	4
Expected return on plan assets	**(45)**	(45)	**-**	-
Amortization of:				
Prior service cost/(credit)	**1**	1	**(9)**	(11)
Actuarial loss	**17**	11	**3**	3
Net periodic benefit cost/(benefit)	**$ 20**	$ 13	**$ (1)**	$ (3)

Cash Contributions – For the three months ended March 31, 2011, UPC has made no cash contributions to the qualified pension plan. Any additional contributions made during 2011 will be based on cash generated from operations and financial market considerations. UPC's 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, 2011, UPC does not have minimum funding requirements for 2011.

5. Other Income

Other income included the following:

Millions *for the Three Months Ended March 31,*		***2011***		*2010*
Rental income	**$**	**20**	$	20
Net gain on non-operating asset dispositions		**1**		4
Interest income		**21**		1
Non-operating environmental costs and other		**(7)**		(8)
Total	**$**	**35**	$	17

6. Income Taxes

We are included in the consolidated income tax return of UPC. The consolidated income tax liability of UPC is allocated among the parent and its subsidiaries on the basis of the separate contributions to the consolidated income tax liability, with benefits of tax losses and credits utilized in consolidation allocated to the companies generating such losses and credits.

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 1999, and the statute of limitations bars any additional tax assessments. Interest calculations may remain open for years prior to 1999. The IRS has completed its examinations and issued notices of deficiency for tax years 1999 through 2006. UPC disagrees with many of their proposed adjustments, and UPC is at IRS Appeals for these years. UPC anticipates a partial settlement of the tax years 1999-2004 during 2011. The IRS is examining UPC's federal income tax returns for 2007 and 2008. Additionally, several state tax authorities are examining UPC's state income tax returns for tax years 2003 through 2006.

At March 31, 2011, our liability for unrecognized tax benefits was $193 million. We classified $112 million of this amount as current in anticipation of a partial settlement in 2011 for tax years 1999-2004.

In February 2011, Arizona enacted legislation that will decrease the state's corporate tax rate. This reduced our deferred tax expense by $14 million in the first quarter of 2011.

7. Comprehensive Income

Comprehensive income was as follows:

Millions, *for the Three Months Ended March 31,*		***2011***		*2010*
Net income	**$**	**669**	$	551
Other comprehensive income:				
Defined benefit plans		**1**		3
Foreign currency translation		**5**		2
Derivatives		**-**		1
Total other comprehensive income [a]		**6**		6
Total comprehensive income	**$**	**675**	$	557

[a] Net of deferred taxes of $4 million and $1 million during the three months ended March 31, 2011 and 2010, respectively.

The after-tax components of accumulated other comprehensive loss were as follows:

Millions	***Mar. 31, 2011***	*Dec. 31, 2010*
Defined benefit plans	**$ (702)**	$ (703)
Foreign currency translation	**(23)**	(28)
Derivatives	**(3)**	(3)
Total	**$ (728)**	$ (734)

8. 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, 2011 and December 31, 2010, our accounts receivable were reduced by $6 million and $5 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At March 31, 2011 and December 31, 2010, receivables classified as other assets were reduced by allowances of $47 million and $51 million, respectively.

Receivables Securitization Facility – Under the receivables securitization facility, we sell most of our accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was $600 million at March 31, 2011 and December 31, 2010. The value of the outstanding undivided interest held by investors under the facility was $100 million at March 31, 2011 and December 31, 2010, and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year. The value of the undivided interest held by investors was supported by $1.1 billion and $960 million of accounts receivable at March 31, 2011 and December 31, 2010, respectively. At March 31, 2011 and December 31, 2010, the value of the interest retained by UPRI was $1.1 billion and $960 million, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of March 31, 2011. Should UPC's credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

We collected approximately $4.3 billion and $3.7 billion during the three months ended March 31, 2011 and 2010, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $1 million and $2 million for the three months ended March 31, 2011 and 2010, respectively.

The investors have no recourse to our other assets except for customary warranty and indemnity claims. Our creditors do not have recourse to the assets of UPRI.

In August 2010, the receivables securitization facility was renewed for an additional 364-day period at comparable terms and conditions.

9. Properties

The following tables list the major categories of property and equipment, as well as the weighted-average composite depreciation rate for each category:

Millions, Except Percentages *As of March 31, 2011*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2011*
Land	$ 4,988	$ N/A	$ 4,988	N/A
Road:				
Rail and other track material [a]	12,096	4,469	7,627	3.3%
Ties	7,722	1,903	5,819	2.9%
Ballast	4,033	948	3,085	3.0%
Other [b]	13,707	2,381	11,326	2.6%
Total road	37,558	9,701	27,857	2.9%
Equipment:				
Locomotives	6,111	2,734	3,377	5.7%
Freight cars	1,884	1,049	835	3.5%
Work equipment and other	367	43	324	5.0%
Total equipment	8,362	3,826	4,536	5.2%
Technology and other	563	245	318	12.9%
Construction in progress	804	-	804	N/A
Total	$ 52,275	$ 13,772	$ 38,503	N/A

Millions, Except Percentages *As of December 31, 2010*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2010*
Land	$ 4,981	$ N/A	$ 4,981	N/A
Road:				
Rail and other track material [a]	11,992	4,458	7,534	3.1%
Ties	7,631	1,858	5,773	2.8%
Ballast	4,011	944	3,067	3.0%
Other [b]	13,634	2,376	11,258	2.5%
Total road	37,268	9,636	27,632	2.8%
Equipment:				
Locomotives	6,136	2,699	3,437	5.6%
Freight cars	1,886	1,040	846	3.6%
Work equipment and other	305	39	266	4.0%
Total equipment	8,327	3,778	4,549	5.1%
Technology and other	551	236	315	13.5%
Construction in progress	764	-	764	N/A
Total	$ 51,891	$ 13,650	$ 38,241	N/A

[a] Includes a weighted-average composite depreciation rate for rail in high-density traffic corridors.

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

10. Accounts Payable and Other Current Liabilities

Millions	***Mar. 31, 2011***	*Dec. 31, 2010*
Accounts payable	**$ 702**	$ 669
Income and other taxes	**592**	406
Accrued wages and vacation	**358**	355
Accrued casualty costs	**264**	261
Equipment rents payable	**90**	86
Interest	**45**	59
Other	**407**	487
Total accounts payable and other current liabilities	**$ 2,458**	$ 2,323

11. Transactions With Affiliates

We had a $236 million and $35 million working capital surplus at March 31, 2011 and December 31, 2010, respectively. Our working capital relates to UPC's management of our cash position. As part of UPC's cash management activities, we advance excess cash (cash available after satisfying all of our obligations and paying dividends to UPC) to UPC. We declare and pay dividends to UPC that typically approximate the dividends UPC declares to its shareholders; however, there is no formal requirement to do so. The dividend declaration between us and UPC is determined solely by our Board of Directors. To the extent we require additional cash for use in our operations, UPC makes such funds available to us for borrowing. We treat these transactions as intercompany borrowings in the Condensed Consolidated Statements of Financial Position.

The majority of our intercompany borrowings from UPC relate to the acquisitions of the Chicago and North Western Transportation Company and Southern Pacific Rail Corporation that were funded by UPC on our behalf. We assumed these acquisition costs in the form of intercompany borrowings from UPC. In December of 2008, the Corporation established a borrowing limit based on our borrowing capacity and UPC implemented a market based interest rate. Currently, the annual rate is 4.7%. The annual rate was 6.4% from July 2009 through June 2010 and 5.8% from December 2008 through June 2009. Interest accrues quarterly and is payable on demand. We do not expect to be required by UPC to pay back the intercompany borrowings within the next 12 months. Intercompany borrowings are unsecured and rank equally with all of our other unsecured indebtedness.

Pursuant to a services agreement, UPC provides us with various services, including strategic planning, legal, treasury, accounting, auditing, insurance, human resources, and corporate affairs. We pay our share of the costs as determined by an independent review. Billings for these services were $21 million and $18 million for the three months ended March 31, 2011 and 2010, respectively.

12. Financial Instruments

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

Determination of Fair Value – We determine the fair values of our derivative financial instrument positions based upon current fair values as quoted by recognized dealers or the present value of expected future cash flows.

Interest Rate Cash Flow Hedges – We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At March 31, 2011 and December 31, 2010, we had reductions of $2 million and $3 million, respectively, recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of March 31, 2011 and December 31, 2010, we had no interest rate cash flow hedges outstanding.

Fair Value of Financial Instruments – The fair value of our short- and long-term debt was estimated using quoted market prices, where available, or current borrowing rates. At March 31, 2011, the fair value of total debt was $2.6 billion, approximately $324 million more than the carrying value. At December 31, 2010, the fair value of total debt was $2.6 billion, approximately $344 million more than the carrying value. At March 31, 2011 and December 31, 2010, approximately $163 million and $164 million, respectively, of fixed-rate debt securities contained call provisions that allowed us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

13. 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 price options are not considered to be potentially significant to the VIE's. The future minimum lease payments associated with the VIE leases totaled $4.0 billion as of March 31, 2011.

14. Commitments and Contingencies

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

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

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 88% of the recorded liability is related to asserted claims, and approximately 12% is related to unasserted claims at March 31, 2011. 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,*	***2011***	*2010*
Beginning balance	**$ 425**	$ 544
Current year accruals	**36**	46
Changes in estimates for prior years	**(16)**	(16)
Payments	**(17)**	(42)
Ending balance at March 31	**$ 428**	$ 532
Current portion, ending balance at March 31	**$ 140**	$ 157

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

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

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 21% of the recorded liability related to asserted claims and approximately 79% related to unasserted claims at March 31, 2011.

Our asbestos-related liability activity was as follows:

Millions, *for the Three Months Ended March 31,*	***2011***	*2010*
Beginning balance	**$ 162**	$ 174
Accruals	**-**	-
Payments	**(2)**	(5)
Ending balance at March 31	**$ 160**	$ 169
Current portion, ending balance at March 31	**$ 11**	$ 13

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at March 31, 2011, and December 31, 2010.

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

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We identified 289 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 33 sites that are the subject of actions taken by the U.S. government, 17 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites;

consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When we identify an environmental issue with respect to property owned, leased, or otherwise used in our business, we and our consultants perform environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and such costs can be reasonably estimated. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At March 31, 2011, less than 1% of our environmental liability was discounted at 3.6%, while approximately 5% of our environmental liability was discounted at 2.8% at December 31, 2010.

Our environmental liability activity was as follows:

Millions, for the Three Months Ended March 31,	***2011***	*2010*
Beginning balance	**$ 213**	$ 217
Accruals	**11**	13
Payments	**(12)**	(8)
Ending balance at March 31	**$ 212**	$ 222
Current portion, ending balance at March 31	**$ 74**	$ 82

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.

Guarantees – At March 31, 2011, we were contingently liable for $355 million in guarantees. We have recorded a liability of $2 million and $3 million for the fair value of these obligations as of March 31, 2011, and December 31, 2010, respectively. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

Indemnities – Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Operating Leases – At March 31, 2011, we had commitments for future minimum lease payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year of approximately $4.7 billion.

15. Capital Stock and Dividend Restriction

The number of shares shown in the Statements of Changes in Common Shareholders' Equity in the Condensed Consolidated Financial Statements, excludes 2,665 shares of Common Stock and 232 shares of Class A Stock owned by Southern Pacific Rail Corporation, whose results are included in the Condensed Consolidated Financial Statements.