UNION PACIFIC RAILROAD COMPANY and CONSOLIDATED SUBSIDIARY COMPANIES

Condensed Consolidated Financial Statements
For the Quarterly Period Ended June 30, 2014

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 June 30,	***2014***	*2013*
Operating revenues:		
Freight revenues	**$ 5,661**	$ 5,153
Other revenues	**347**	310
Total operating revenues	**6,008**	5,463
Operating expenses:		
Compensation and benefits	**1,225**	1,170
Fuel	**923**	863
Purchased services and materials	**634**	582
Depreciation	**470**	438
Equipment and other rents	**316**	302
Other	**244**	236
Total operating expenses	**3,812**	3,591
Operating income	**2,196**	1,872
Other income/(expense), net (Note 6)	**34**	20
Interest expense	**(28)**	(28)
Income before income taxes	**2,202**	1,864
Income taxes	**(834)**	(698)
Net income	**$ 1,368**	$ 1,166

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

Millions, for the Three Months Ended June 30,	***2014***	*2013*
Net income	**$ 1,368**	$ 1,166
Other comprehensive income/(loss):		
Defined benefit plans	**11**	17
Foreign currency translation	**9**	4
Total other comprehensive income/(loss) [a]	**20**	21
Comprehensive income	**$ 1,388**	$ 1,187

[a] Net of deferred taxes of $12 million and $13 million during the three months ended June 30, 2014, and 2013, respectively.

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

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

Millions, *for the Six Months Ended June 30,*	***2014***	*2013*
Operating revenues:		
Freight revenues	**$ 10,947**	$ 10,137
Other revenues	**692**	610
Total operating revenues	**11,639**	10,747
Operating expenses:		
Compensation and benefits	**2,451**	2,367
Fuel	**1,844**	1,763
Purchased services and materials	**1,239**	1,135
Depreciation	**934**	872
Equipment and other rents	**628**	615
Other	**493**	487
Total operating expenses	**7,589**	7,239
Operating income	**4,050**	3,508
Other income/(expense), net (Note 6)	**79**	55
Interest expense	**(49)**	(57)
Income before income taxes	**4,080**	3,506
Income taxes	**(1,550)**	(1,318)
Net income	**$ 2,530**	$ 2,188

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

Millions, *for the Six Months Ended June 30,*	***2013***	*2012*
Net income	**$ 2,530**	$ 2,188
Other comprehensive income/(loss):		
Defined benefit plans	**31**	31
Foreign currency translation	**5**	7
Total other comprehensive income/(loss) [a]	**36**	38
Comprehensive income	**$ 2,566**	$ 2,226

[a] Net of deferred taxes of $17 million and $25 million during the six months ended June 30, 2014, and 2013, respectively.

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, Except Share and Per Share Amounts	***June 30, 2014***	*December 31, 2013*
Assets		
Current assets:		
Cash and cash equivalents	**$ 611**	$ 597
Accounts receivable, net (Note 9)	**1,643**	1,401
Materials and supplies	**738**	653
Current deferred income taxes	**218**	246
Other current assets	**267**	205
Total current assets	**3,477**	3,102
Intercompany lendings to UPC (Note 12)	**2,762**	1,645
Investments	**1,369**	1,320
Net properties (Note 10)	**44,888**	43,737
Other assets	**718**	609
Total assets	**$ 53,214**	$ 50,413
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 11)	**$ 2,835**	$ 2,647
Third-party debt due within one year	**201**	198
Total current liabilities	**3,036**	2,845
Third-party debt due after one year	**2,453**	1,695
Deferred income taxes	**14,163**	14,021
Other long-term liabilities	**1,601**	1,632
Commitments and contingencies (Note 16)		
Total liabilities	**21,253**	20,193
Common shareholders' equity		
Common shares, $10.00 par value, 9,200 authorized; 4,465 outstanding	-	-
Class A shares, $10.00 par value, 800 authorized; 388 outstanding	-	-
Paid-in-surplus	**4,782**	4,782
Retained earnings	**27,893**	26,188
Accumulated other comprehensive loss (Note 8)	**(714)**	(750)
Total common shareholders' equity	**31,961**	30,220
Total liabilities and common shareholders' equity	**$ 53,214**	$ 50,413

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 Six Months Ended June 30,	***2014***	*2013*
Operating Activities		
Net income	**$ 2,530**	$ 2,188
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**934**	872
Deferred income taxes and unrecognized tax benefits	**159**	259
Other operating activities, net	**(42)**	(13)
Changes in current assets and liabilities:		
Accounts receivable, net	**(242)**	(129)
Materials and supplies	**(85)**	6
Other current assets	**(62)**	(31)
Accounts payable and other current liabilities	**188**	(90)
Cash provided by operating activities	**3,380**	3,062
Investing Activities		
Capital investments	**(2,068)**	(1,730)
Proceeds from asset sales	**40**	42
Other investing activities, net	**(150)**	(77)
Cash used in investing activities	**(2,178)**	(1,765)
Financing Activities		
Debt issued	**900**	300
Intercompany payments, net (Note 12)	**(1,118)**	(528)
Dividends paid to UPC	**(825)**	(646)
Debt repaid	**(140)**	(99)
Other financing activities, net	**(5)**	(10)
Cash used in financing activities	**(1,188)**	(983)
Net change in cash and cash equivalents	**14**	314
Cash and cash equivalents at beginning of year	**597**	315
Cash and cash equivalents at end of period	**$ 611**	$ 629
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	**$ 109**	$ 119
Cash paid for:		
Income taxes, net of refunds	**$ (1,311)**	$ (984)
Interest, net of amounts capitalized	**(66)**	(55)

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	*Common Shares*	*Class A Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*AOCI [a]*	*Total*
Balance at January 1, 2013	4,465	388	$ -	$ 4,782	$ 22,924	$ (1,186)	$ 26,520
Net income	-	-	-	-	2,188	-	2,188
Other comp. income	-	-	-	-	-	38	38
Cash dividends declared	-	-	-	-	(646)	-	(646)
Balance at June 30, 2013	4,465	388	$ -	$ 4,782	$ 24,466	$ (1,148)	$ 28,100
Balance at January 1, 2014	4,465	388	$ -	$ 4,782	$ 26,188	$ (750)	$ 30,220
Net income	-	-	-	-	2,530	-	2,530
Other comp. income	-	-	-	-	-	36	36
Cash dividends declared	-	-	-	-	(825)	-	(825)
Balance at June 30, 2014	**4,465**	**388**	**$ -**	**$ 4,782**	**$ 27,893**	**$ (714)**	**$ 31,961**

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (Note 8)

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 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, 2013, is derived from audited financial statements. This Quarterly Report should be read in conjunction with our 2013 Annual Consolidated Financial Statements and notes thereto. The results of operations for the six months ended June 30, 2014, are not necessarily indicative of the results for the entire year ending December 31, 2014.

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

Subsequent Events Evaluation – We evaluated the effects of all subsequent events through August 12, 2014, the financial statements issuance date.

2. Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods or services. This standard is effective for annual reporting periods beginning after December 15, 2016. ASU 2014-09 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

3. Operations and Segmentation

We have one reportable operating segment. Although we provide and review revenue 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 freight revenue by commodity group:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2014***	*2013*	***2014***	*2013*
Agricultural	**$ 934**	$ 784	**$ 1,844**	$ 1,568
Automotive	**545**	534	**1,033**	1,021
Chemicals	**913**	890	**1,806**	1,763
Coal	**989**	975	**1,950**	1,911
Industrial Products	**1,130**	977	**2,141**	1,893
Intermodal	**1,150**	993	**2,173**	1,981
Total freight revenues	**5,661**	5,153	**10,947**	10,137
Other revenues	**347**	310	**692**	610
Total operating revenues	**$ 6,008**	$ 5,463	**$ 11,639**	$ 10,747

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported by us are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are revenues from our Mexico business which amounted to $599 million and $519 million, respectively for the three months ended June 30, 2014, and June 30, 2013 and $1,139 million and $1,024 million, respectively for the six months ended June 30, 2014, and June 30, 2013.

4. 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 are granted.

On June 6, 2014, UPC completed a two-for-one stock split, effected in the form of a 100% stock dividend. The stock split entitled all shareholders of record at the close of business on May 27, 2014, to receive one additional share of UPC common stock, par value $2.50 per share, for each share of common stock held on that date. All references to common shares and per share amounts in this footnote have been retroactively adjusted to reflect the stock split for all periods presented.

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2014***	*2013*	***2014***	*2013*
Stock-based compensation, before tax:				
Stock options	**$ 3**	$ 3	**$ 6**	$ 5
Retention awards	**18**	16	**35**	32
Total stock-based compensation, before tax	**$ 21**	$ 19	**$ 41**	$ 37

Stock Options – The fair value of UPC's stock option awards is estimated using the Black-Scholes option pricing model. The table below shows the annual weighted-average assumptions used for valuation purposes:

Weighted-Average Assumptions	***2014***	*2013*
Risk-free interest rate	**1.6%**	0.8%
UPC's Dividend yield	**2.1%**	2.1%
Expected life (years)	**5.2**	5.0
Volatility	**30.0%**	36.2%
Weighted-average grant-date fair value of options granted	**$ 20.18**	$ 17.49

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 UPC's common stock to UPC's 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 June 30, 2014, are subject to performance or market-based vesting conditions.

At June 30, 2014, there was $17 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:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2014***	*2013*	***2014***	*2013*
Intrinsic value of stock options exercised	**$ 19**	$ 22	**$ 46**	$ 45
UPC's tax benefit realized from option exercises	**7**	8	**17**	17
Aggregate grant-date fair value of stock options vested	**-**	-	**10**	9

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 June 30, 2014, there was $86 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.0 years.

Performance Retention Awards – In February 2014, 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 2012, and February 2013, including using annual return on invested capital (ROIC) of the Corporation 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 2014, grant were as follows:

	2014
UPC's dividend per share per quarter	$ 0.455
Risk-free interest rate at date of grant	0.7%

At June 30, 2014, there was $34 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.5 years. This expense is subject to achievement of the ROIC levels 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 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 in accumulated other comprehensive income and, if necessary, amortized as pension or OPEB expense.

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2014***	*2013*	***2014***	*2013*
Service cost	**$ 17**	$ 18	**$ 35**	$ 37
Interest cost	**38**	33	**77**	66
Expected return on plan assets	**(57)**	(50)	**(115)**	(101)
Amortization of:				
Actuarial loss	**18**	27	**35**	53
Net periodic pension cost	**$ 16**	$ 28	**$ 32**	$ 55

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2014***	*2013*	***2014***	*2013*
Service cost	**$ 1**	$ 1	**$ 2**	$ 2
Interest cost	**3**	3	**7**	6
Amortization of:				
Prior service credit	**(3)**	(4)	**(6)**	(8)
Actuarial loss	**3**	3	**5**	7
Net periodic OPEB cost	**$ 4**	$ 3	**$ 8**	$ 7

Cash Contributions

For the six months ended June 30, 2014, UPC has not made any cash contributions to the qualified pension plan. Any contributions made during 2014 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 June 30, 2014, UPC does not have minimum cash funding requirements for 2014.

6. Other Income/(Expense), net

Other income/(expense), net included the following:

Millions	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014 [a]	Six Months Ended June 30, 2013 [b]
Rental income	**$ 23**	$ 21	**$ 47**	$ 57
Intercompany interest income/(expense), net	**13**	(3)	**20**	(8)
Net gain on non-operating asset dispositions	**7**	-	**11**	4
Non-operating environmental costs and other	**(9)**	2	**1**	2
Total	**$ 34**	$ 20	**$ 79**	$ 55

[a] Non-operating environmental costs and other includes $14 million related to the sale of a permanent easement
[b] Rental income includes $17 million related to a land lease contract settlement.

7. 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 their 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 2005, and the statute of limitations bars any additional tax assessments. The IRS has completed their examinations and issued notices of deficiency for tax years 2005 through 2010. UPC disagrees with many of their proposed adjustments, and UPC is at IRS Appeals for those years. Additionally, several state tax authorities are examining UPC's state income tax returns for years 2006 through 2010.

In the fourth quarter of 2013, UPC reached an agreement in principle with the IRS to resolve all of the issues related to tax years 2005 through 2008, with the exception of interest calculations. UPC anticipates signing a closing agreement with the IRS for these years within the next 12 months. When signed, this closing agreement will not have a material effect on UPC's consolidated results of operations, financial condition or liquidity.

At June 30, 2014, we had a net liability for unrecognized tax benefits of $191 million. Of that amount, $148 million is classified as a current liability in the Condensed Consolidated Statements of Financial Position.

8. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three and six months ended June 30, 2014, and 2013, were as follows (net of tax):

Millions	*Defined benefit plans*	*Foreign currency translation*	*Derivatives*	*Total*
Balance at April 1, 2014	$ (693)	$ (41)	$ -	$ (734)
Other comprehensive income/(loss) before reclassifications	-	9	-	9
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	11	-	-	11
Net quarter-to-date other comprehensive income/(loss), net of taxes of $12 million	11	9	-	20
Balance at June 30, 2014	$ (682)	$ (32)	$ -	$ (714)
Balance at April 1, 2013	$ (1,135)	$ (33)	$ (1)	$ (1,169)
Other comprehensive income/(loss) before reclassifications	1	4	-	5
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	16	-	-	16
Net quarter-to-date other comprehensive income/(loss), net of taxes of $13 million	17	4	-	21
Balance at June 30, 2013	$ (1,118)	$ (29)	$ (1)	$ (1,148)

Millions	*Defined benefit plans*	*Foreign currency translation*	*Derivatives*	*Total*
Balance at January 1, 2014	$ (713)	$ (37)	$ -	$ (750)
Other comprehensive income/(loss) before reclassifications	10	5	-	15
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	21	-	-	21
Net year-to-date other comprehensive income/(loss), net of taxes of $17 million	31	5	-	36
Balance at June 30, 2014	$ (682)	$ (32)	$ -	$ (714)
Balance at January 1, 2013	$ (1,149)	$ (36)	$ (1)	$ (1,186)
Other comprehensive income/(loss) before reclassifications	(2)	7	-	5
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	33	-	-	33
Net year-to-date other comprehensive income/(loss), net of taxes of $25 million	31	7	-	38
Balance at June 30, 2013	$ (1,118)	$ (29)	$ (1)	$ (1,148)

[a] The accumulated other comprehensive income/(loss) reclassification components are 1) prior service cost/(benefit) 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.

9. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, credit worthiness of customers, and current economic conditions. At June 30, 2014, and December 31, 2013, our accounts receivable were reduced by $4 million and $1 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At June 30, 2014, and December 31, 2013, receivables classified as other assets were reduced by allowances of $18 million and $22 million, respectively.

Receivables Securitization Facility – We maintain a $600 million, 364-day receivables securitization facility under which we sell most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a 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 our other assets except for customary warranty and indemnity claims. Our creditors do not have recourse to the assets of UPRI.

The amount outstanding under the facility was $400 million and $0 at June 30, 2014, and December 31, 2013, respectively. The amount outstanding under the facility was supported by $1.3 billion and $1.1 billion of accounts receivable as collateral at June 30, 2014, and December 31, 2013, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amount we are allowed to maintain under the facility, with a maximum of $600 million, may fluctuate based on the availability of eligible receivables and is directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the facility would not materially change.

The costs of the receivables securitization facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuing costs, and fees of participating banks for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $1 million for the three months ended June 30, 2014, and 2013, and $1 million and $2 million for the six months ended June 30, 2014, and 2013.

Subsequent event - On July 30, 2014, we completed the renewal of our receivables securitization facility. The new $650 million, 3-year facility replaces the prior $600 million, 364-day facility.

10. Properties

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

Millions, Except Estimated Useful Life *As of June 30, 2014*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
Land	$ 5,131	$ N/A	$ 5,131	N/A
Road:				
Rail and other track material	14,219	5,105	9,114	33
Ties	8,968	2,396	6,572	33
Ballast	4,720	1,220	3,500	34
Other roadway [a]	15,996	2,796	13,200	47
Total road	43,903	11,517	32,386	N/A
Equipment:				
Locomotives	7,882	3,625	4,257	20
Freight cars	2,073	969	1,104	25
Work equipment and other	571	135	436	18
Total equipment	10,526	4,729	5,797	N/A
Technology and other	785	287	498	11
Construction in progress	1,076	-	1,076	N/A
Total	$ 61,421	$ 16,533	$ 44,888	N/A

Millions, Except Estimated Useful Life *As of December 31, 2013*	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
Land	$ 5,117	$ N/A	$ 5,117	N/A
Road:				
Rail and other track material	13,861	4,970	8,891	35
Ties	8,785	2,310	6,475	33
Ballast	4,621	1,171	3,450	34
Other roadway [a]	15,596	2,726	12,870	48
Total road	42,863	11,177	31,686	N/A
Equipment:				
Locomotives	7,518	3,481	4,037	20
Freight cars	2,085	1,000	1,085	25
Work equipment and other	561	119	442	18
Total equipment	10,164	4,600	5,564	N/A
Technology and other	694	278	416	10
Construction in progress	954	-	954	N/A
Total	$ 59,792	$ 16,055	$ 43,737	N/A

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

11. Accounts Payable and Other Current Liabilities

Millions	***June 30, 2014***	*Dec. 31, 2013*
Accounts payable	**$ 909**	$ 799
Income and other taxes payable	**723**	635
Accrued wages and vacation	**393**	384
Accrued casualty costs	**186**	184
Equipment rents payable	**108**	96
Interest payable	**32**	43
Other	**484**	506
Total accounts payable and other current liabilities	**$ 2,835**	$ 2,647

12. Transactions with Affiliates

We had a $441 million and $257 million working capital surplus at June 30, 2014 and December 31, 2013, 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 lendings in the Consolidated Statements of Financial Position.

In December of 2008, UPC established a borrowing limit based on our borrowing capacity and UPC implemented a market based interest rate. Currently, the annual rate is 3.5%. The annual rate was 2.9% from July 2012 through June 2013 and 4.6% from July 2011 through June 2012. Interest accrues quarterly and is payable on demand. We do not expect a payment from UPC within 12 months, or in the event of borrowings from UPC, 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. At June 30, 2014 and December 31, 2013, intercompany lendings to UPC were $2.8 billion and $1.6 billion, respectively.

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 $46 million and $35 million, for the six months ended June 30, 2014 and 2013, respectively.

13. Financial Instruments

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

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 June 30, 2014, and December 31, 2013, we had reductions of $0 and $1 million, respectively, recorded as an accumulated other comprehensive loss. As of June 30, 2014, and December 31, 2013, 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 a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt securities. All of the inputs used to determine the fair market value of the Corporation's long-term debt are Level 2 inputs and obtained from an independent source. At June 30, 2014, the fair value of total debt was $3.0 billion, approximately $321 million more than the carrying value. At December 31, 2013, the fair value of total debt was $2.1 billion, approximately $239 million more than the carrying value. The fair value of the company's debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules. At both June 30, 2014, and December 31, 2013, approximately $163 million of debt securities contained call provisions that allow us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

14. Debt

At June 30, 2014, and December 31, 2013, we reclassified as long-term debt approximately $400 million and $0, respectively, of debt due within one year that we intend to refinance. This reclassification reflects our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Equipment Trust – On May 20, 2014, we consummated a pass-through (P/T) financing, whereby a P/T trust was created which issued $500 million of P/T trust certificates with a stated interest rate of 3.227%. The P/T trust certificates will mature on May 14, 2026. The proceeds from the issuance of the P/T trust certificates were used to purchase equipment trust certificates to be issued by us to finance the acquisition of 245 locomotives. The equipment trust certificates are secured by a lien on the locomotives.

During the three months ended June 30, 2014, we received $402 million in proceeds (net of $3 million in transaction fees) to fund the purchase of 199 locomotives delivered by the closing of the financing. The remaining proceeds of $95 million are held in an escrow account and will fund the acquisition of 46 additional locomotives scheduled for delivery by the end of the third quarter of 2014. The restricted cash held in the escrow account is included in other assets on the Condensed Consolidated Statement of Financial Position.

We evaluated whether the P/T trust is a variable interest entity. As we have control over the escrow account based on the P/T trust agreement, it was determined that we have a variable interest in the trust and must consolidate the trust in accordance with ASC 810. As such, we recorded the debt obligation and restricted cash held in escrow upon the initial issuance of the P/T trust certificates.

Receivables Securitization Facility – The amount outstanding under the facility was $400 million and $0 at June 30, 2014, and December 31, 2013, respectively. See further discussion of our receivables securitization facility in Note 9.

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 $3.1 billion as of June 30, 2014.

16. Commitments and Contingencies

Asserted and Unasserted Claims – Various claims and lawsuits are pending against us and certain of our subsidiaries. We cannot fully determine the effect of all asserted and unasserted claims on our consolidated results of operations, financial condition, or liquidity; 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 not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 92% of the recorded liability is related to asserted claims and approximately 8% is related to unasserted claims at June 30, 2014. 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 $292 million to $319 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

Millions, *for the Six Months Ended June 30,*	***2014***	*2013*
Beginning balance	**$ 293**	$ 333
Current year accruals	**43**	47
Changes in estimates for prior years	**(14)**	(22)
Payments	**(30)**	(44)
Ending balance at June 30	**$ 292**	$ 314
Current portion, ending balance at June 30	**$ 80**	$ 89

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

- The ratio of future claims by alleged disease would be consistent with historical averages adjusted for inflation.
- The number of claims filed against us will decline each year.

- The average settlement values for asserted and unasserted claims will be equivalent to historical averages.
- The percentage of claims dismissed in the future will be equivalent to historical averages.

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 20% of the recorded liability is related to asserted claims and approximately 80% is related to unasserted claims at June 30, 2014.

Our asbestos-related liability activity was as follows:

Millions, *for the Six Months Ended June 30,*		***2014***		*2013*
Beginning balance	**$**	**131**	$	139
Accruals		**-**		-
Payments		**(4)**		(5)
Ending balance at June 30	**$**	**127**	$	134
Current portion, ending balance at June 30	**$**	**9**	$	8

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 June 30, 2014, and December 31, 2013.

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

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have identified 269 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 31 sites that are the subject of actions taken by the U.S. government, 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 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. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At both June 30, 2014, and December 31, 2013, none of our environmental liability was discounted.

Our environmental liability activity was as follows:

Millions, for the Six Months Ended June 30,	***2014***	*2013*
Beginning balance	**$ 171**	$ 170
Accruals	**16**	19
Payments	**(20)**	(21)
Ending balance at June 30	**$ 167**	$ 168
Current portion, ending balance at June 30	**$ 51**	$ 49

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

Guarantees – At June 30, 2014, and December 31, 2013, we were contingently liable for guarantees of $93 million and $299 million, respectively. We have recorded a liability of $0.3 million and $1 million for the fair value of these obligations as of June 30, 2014, and December 31, 2013, respectively. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to 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 June 30, 2014, 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 billion.

Gain Contingency – The Company and Santa Fe Pacific Pipelines (SFPP, a subsidiary of Kinder Morgan Energy Partners, L.P.) currently are engaged in a proceeding to resolve the fair market rent

payable to us under a 10-year agreement commencing on January 1, 2004, for pipeline easements on our rights-of-way (*Union Pacific Railroad Company vs. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. "D" Kinder Morgan G.P., Inc., et al., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004*). In February 2007, a trial began to resolve this issue, and, on September 28, 2011, the judge issued a tentative Statement of Decision, which concluded that SFPP owes back rent to us for the years 2004 through 2011. On May 29, 2012, the court entered judgment, awarding us back rent and prejudgment interest. SFPP is appealing the final judgment. A favorable final judgment may materially affect our results of operations in the period of any monetary recoveries; however, due to the uncertainty regarding the amount and timing of any recovery, including the outcome of SFPP's appeal of this judgment or any subsequent proceeding, we consider this a gain contingency and do not reflect any amounts in the Condensed Consolidated Financial Statements as of June 30, 2014.

17. 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 Shares and 232 shares of Class A Shares owned by Southern Pacific Rail Corporation, whose results are included in the Condensed Consolidated Financial Statements.