UNION PACIFIC RAILROAD COMPANY and CONSOLIDATED SUBSIDIARY COMPANIES

Condensed Consolidated Financial Statements For the Quarterly Period Ended March 31, 2020

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,		***2020***		*2019*
Operating revenues:				
Freight revenues	**$**	**4,880**	$	5,010
Other revenues		**349**		374
Total operating revenues		**5,229**		5,384
Operating expenses:				
Compensation and benefits		**1,059**		1,202
Depreciation		**546**		549
Purchased services and materials		**520**		574
Fuel		**434**		531
Equipment and other rents		**227**		258
Other		**304**		291
Total operating expenses		**3,090**		3,405
Operating income		**2,139**		1,979
Other income, net (Note 6)		**17**		18
Interest expense		**(16)**		(16)
Income before income taxes		**2,140**		1,981
Income taxes		**(499)**		(445)
Net income	**$**	**1,641**	$	1,536

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

Millions, for the Three Months Ended March 31,		***2020***		*2019*
Net income	**$**	**1,641**	$	1,536
Other comprehensive income/(loss):				
Defined benefit plans		**22**		10
Foreign currency translation		**5**		27
Total other comprehensive income/(loss) [a]		**27**		37
Comprehensive income	**$**	**1,668**	$	1,573

[a] Net of deferred taxes of ($7) million and ($4) million during the three months ended March 31, 2020, and 2019, 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		***March 31, 2020***		*December 31, 2019*
Assets				
Current assets:				
Cash and cash equivalents	**$**	**143**	$	253
Accounts receivable, net (Note 9)		**1,667**		1,592
Materials and supplies		**692**		751
Other current assets		**305**		238
Total current assets		**2,807**		2,834
Investments		**2,078**		2,050
Net properties (Note 10)		**54,111**		53,906
Operating lease assets (Note 16)		**1,773**		1,812
Other assets		**425**		419
Total assets	**$**	**61,194**	$	61,021
Liabilities and Common Shareholder's Equity				
Current liabilities:				
Accounts payable and other current liabilities (Note 11)	**$**	**3,032**	$	2,840
Third-party debt due within one year (Note 14)		**155**		150
Total current liabilities		**3,187**		2,990
Intercompany borrowings from UPC (Note 12)		**3,856**		5,467
Third-party debt due after one year (Note 14)		**1,709**		1,769
Operating lease liabilities (Note 16)		**1,339**		1,471
Deferred income taxes		**11,887**		11,789
Other long-term liabilities		**1,759**		1,743
Commitments and contingencies (Note 17)				
Total liabilities		**23,737**		25,229
Common shareholder's equity:				
Common shares, $10.00 par value, 9,200 authorized; 4,465 outstanding		**-**		-
Class A shares, $10.00 par value, 800 authorized; 388 outstanding		**-**		-
Paid-in-surplus		**4,782**		4,782
Retained earnings		**34,004**		32,366
Accumulated other comprehensive loss (Note 8)		**(1,329)**		(1,356)
Total common shareholder's equity		**37,457**		35,792
Total liabilities and common shareholder's equity	**$**	**61,194**	$	61,021

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,	***2020***	*2019*
Operating Activities		
Net income	**$ 1,641**	$ 1,536
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**546**	549
Deferred and other income taxes	**94**	106
Other operating activities, net	**(90)**	(94)
Changes in current assets and liabilities:		
Accounts receivable, net	**(75)**	82
Materials and supplies	**59**	(39)
Other current assets	**(76)**	(73)
Accounts payable and other current liabilities	**(84)**	(154)
Income and other taxes	**350**	283
Cash provided by operating activities	**2,365**	2,196
Investing Activities		
Capital investments	**(807)**	(752)
Proceeds from asset sales	**8**	14
Other investing activities, net	**(8)**	(46)
Cash used in investing activities	**(807)**	(784)
Financing Activities		
Intercompany payments, net (Note 12)	**(1,613)**	(624)
Debt repaid	**(55)**	(102)
Dividends paid to UPC	**-**	(633)
Cash used in financing activities	**(1,668)**	(1,359)
Net change in cash and cash equivalents	**(110)**	53
Cash and cash equivalents at beginning of year	**253**	249
Cash and cash equivalents at end of period	**$ 143**	$ 302
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	**$ 169**	$ 149
Cash (paid for)/received from:		
Income taxes, net of refunds	**$ (1)**	$ (1)
Interest, net of amounts capitalized	**(15)**	(21)

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

Condensed Consolidated Statements of Changes in Common Shareholder's 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, 2019	4,465	388	$ -	$ 4,782	$ 31,031	$ (1,415)	$ 34,398
Net income	-	-	-	-	1,536	-	1,536
Other comprehensive income	-	-	-	-	-	37	37
Cash dividends declared	-	-	-	-	(633)	-	(633)
Other [b]	-	-	-	-	(22)	-	(22)
Balance at March 31, 2019	4,465	388	$ -	$ 4,782	$ 31,912	$ (1,378)	$ 35,316
Balance at January 1, 2020	4,465	388	$ -	$ 4,782	$ 32,366	$ (1,356)	$ 35,792
Net income	-	-	-	-	1,641	-	1,641
Other comprehensive income	-	-	-	-	-	27	27
Cash dividends declared	-	-	-	-	-	-	-
Other [b]	-	-	-	-	(3)	-	(3)
Balance at March 31, 2020	**4,465**	**388**	**$ -**	**$ 4,782**	**$ 34,004**	**$ (1,329)**	**$ 37,457**

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (Note 8)
[b] Transfer of legal entity from parent company

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 a direct 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, 2019, is derived from audited financial statements. This Quarterly Report should be read in conjunction with our 2019 Annual Consolidated Financial Statements and notes thereto. The results of operations for the three months ended March 31, 2020, are not necessarily indicative of the results for the entire year ending December 31, 2020.

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 29, 2020, the financial statements issuance date.

Our business, financial condition and results of operations have been adversely affected by the COVID-19 pandemic. Because the severity, magnitude and duration of the COVID-19 pandemic and its economic consequences are uncertain, rapidly changing and difficult to predict, the impact on our business and financial condition remains uncertain and difficult to predict. We believe the steps UPC has taken to enhance its capital structure and liquidity have strengthened our ability to operate through current conditions.

2. Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13), *Measurement of Credit Losses on Financial Instruments,* which replaces the existing incurred credit loss model for an expected credit loss model. Effective January 1, 2020, we adopted ASU 2016-13 at the same time as our parent company, and it did not have a material impact on our consolidated financial position, results of operations, or cash flows.

In August 2018, the FASB issued Accounting Standards Update No. 2018-14 (ASU 2018-14), *Changes to the Disclosure Requirements for Defined Benefit Plans,* which modifies the disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. The ASU is effective for public companies beginning January 1, 2021, and will be adopted at the same time as our parent company. Early adoption is permitted. Adoption of the standard is not expected to have a material impact on the Company’s consolidated financial statement disclosure requirements.

3. Operations and Segmentation

We have one reportable operating segment. Although we provide and analyze revenue by three commodity groups, we treat the financial results 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. Prior to 2020, we reported on four commodity groups, thus 2020 freight revenues have been realigned to the new reporting format.

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

Millions, for the Three Months Ended March 31,		***2020***		*2019*
Bulk	**$**	**1,534**	$	1,620
Industrial		**1,894**		1,839
Premium		**1,452**		1,551
Total freight revenues	**$**	**4,880**	$	5,010
Other subsidiary revenues		**214**		223
Accessorial revenues		**117**		133
Other		**18**		18
Total operating revenues	**$**	**5,229**	$	5,384

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 $583 million and $576 million, respectively, for the three months ended March 31, 2020, and March 31, 2019.

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". The Corporation has elected to issue treasury shares to cover option exercises and stock unit vestings, while new shares are issued by UPC when retention shares are granted.

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

Millions, for the Three Months Ended March 31,		***2020***		*2019*
Stock-based compensation, before tax:				
Stock options	**$**	**4**	$	4
Retention awards		**17**		21
Total stock-based compensation, before tax	**$**	**21**	$	25

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	***2020***	*2019*
Risk-free interest rate	**1.5%**	2.5%
UPC's dividend yield	**2.1%**	2.2%
Expected life (years)	**4.9**	5.2
Volatility	**23.4%**	22.7%
Weighted-average grant-date fair value of options granted	**$ 32.20**	$ 30.37

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 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 expected 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 10 year contractual terms, and vest no later than 3 years from the date of grant. None of the stock options outstanding at March 31, 2020, are subject to performance or market-based vesting conditions.

At March 31, 2020, there was $28 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.7 years. Additional information regarding stock option exercises appears in the table below:

Millions, *for the Three Months Ended March 31,*		***2020***		*2019*
Intrinsic value of stock options exercised	**$**	**44**	$	70
UPC's tax benefit realized from option exercises		**11**		34
Aggregate grant-date fair value of stock options vested		**14**		15

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 4 years. At March 31, 2020, there was $130 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 2020, UPC's Board of Directors approved performance stock unit grants. The basic terms of these performance stock units are identical to those granted in February 2019, 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. The Corporation defines ROIC as net operating profit adjusted for interest expense (including interest on average operating lease liabilities) and taxes on interest divided by average invested capital adjusted for average operating lease liabilities. The modifier can be up to +/- 25% of the award earned based on the ROIC achieved.

Stock units awarded to selected employees under these grants are subject to continued employment for 37 months and the attainment of certain levels of ROIC, modified for the relative OIG. We expense the fair value of the units that are probable of being earned based on the Corporation's 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 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 2020 grant were as follows:

		2020
UPC's dividend per share per quarter	$	0.97
Risk-free interest rate at date of grant		1.4%

At March 31, 2020, there was $29 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 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. 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.

Other Postretirement Benefits (OPEB) – We provide medical and life insurance benefits for eligible retirees through the Corporation's programs 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 5 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 and OPEB costs were as follows for the three months ended March 31:

Millions,	Pension		OPEB	
for the Three Months Ended March 31,	***2020***	*2019*	***2020***	*2019*
Service cost	**$ 27**	$ 22	**$ -**	$ -
Interest cost	**34**	40	**1**	3
Expected return on plan assets	**(70)**	(68)	**-**	-
Amortization of:				
Prior service cost	**-**	-	**(3)**	-
Actuarial loss	**28**	16	**2**	1
Net periodic benefit cost	**$ 19**	$ 10	**$ -**	$ 4

On June 30, 2019, the OPEB plan was remeasured to reflect an announced plan amendment effective January 1, 2020 that reduced and eliminated certain medical benefits for Medicare-eligible retirees. This negative plan amendment resulted in a reduction in the accumulated postretirement benefit obligation of approximately $92 million with a corresponding adjustment of $69 million in other comprehensive income, net of $23 million in deferred taxes. This amount is being amortized as a reduction of future net periodic OPEB cost over approximately 8 years, which represents the future remaining service period of eligible employees.

Cash Contributions

For the three months ended March 31, 2020, UPC's cash contributions totaled $0 to the qualified pension plan. Any contributions made during 2020 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, 2020, UPC does not have minimum cash funding requirements for 2020.

6. Other Income, net

Other income, net included the following:

Millions, *for the Three Months Ended March 31,*	***2020***	*2019*
Intercompany interest income/(expense), net	**$ (30)**	$ (51)
Rental income	**31**	29
Net gain on non-operating asset dispositions	**11**	4
Net periodic pension and OPEB costs	**8**	8
Interest income on employment tax refund	**-**	27
Non-operating environmental costs and other	**(3)**	1
Total	**$ 17**	$ 18

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.

UPC is not currently under examination by the Internal Revenue Service (IRS). The statute of limitations has run for all years prior to 2016. Several state tax authorities are examining UPC's state tax returns for years 2015 through 2018. At March 31, 2020, we had a net liability for unrecognized tax benefits of $73 million.

8. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three months ended March 31, 2020, and 2019, were as follows (net of tax):

Millions	*Defined benefit plans*	*Foreign currency translation*	*Total*
Balance at January 1, 2020	$ (1,150)	$ (206)	$ (1,356)
Other comprehensive income/(loss) before reclassifications	2	5	7
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	20	-	20
Net year-to-date other comprehensive income/(loss), net of taxes of ($7) million	22	5	27
Balance at March 31, 2020	$ (1,128)	$ (201)	$ (1,329)
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)

[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.

9. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, creditworthiness of customers, and current economic conditions. At March 31, 2020, and December 31, 2019, our accounts receivable were reduced by $22 million and $4 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, 2020, and December 31, 2019, receivables classified as other assets were reduced by allowances of $38 million and $35 million, respectively.

Receivables Securitization Facility – We maintain an $800 million, 3-year receivables securitization facility (the Receivables Facility) maturing in July 2022. Under the Receivables Facility, we sell most of our 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 our 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, 2020, and December 31, 2019. The Receivables Facility was supported by $1.4 billion and $1.3 billion of accounts receivable as collateral at March 31, 2020, and December 31, 2019, 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 Receivables Facility, with a maximum of $800 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 $3 million and $4 million for the three months ended March 31, 2020, and 2019, respectively.

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 March 31, 2020	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
Land	$ 5,272	$ N/A	$ 5,272	N/A
Road:				
Rail and other track material	17,288	6,440	10,848	42
Ties	10,793	3,230	7,563	34
Ballast	5,798	1,687	4,111	34
Other roadway [a]	20,486	4,124	16,362	48
Total road	54,365	15,481	38,884	N/A
Equipment:				
Locomotives	9,456	3,453	6,003	18
Freight cars	2,089	783	1,306	24
Work equipment and other	1,094	330	764	18
Total equipment	12,639	4,566	8,073	N/A
Technology and other	1,176	480	696	12
Construction in progress	1,186	-	1,186	N/A
Total	$ 74,638	$ 20,527	$ 54,111	N/A

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

Millions, Except Estimated Useful Life As of December 31, 2019	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Estimated Useful Life*
Land	$ 5,272	$ N/A	$ 5,272	N/A
Road:				
Rail and other track material	17,178	6,381	10,797	42
Ties	10,693	3,186	7,507	34
Ballast	5,752	1,669	4,083	34
Other roadway [a]	20,331	4,056	16,275	48
Total road	53,954	15,292	38,662	N/A
Equipment:				
Locomotives	9,467	3,434	6,033	18
Freight cars	2,083	779	1,304	25
Work equipment and other	1,081	322	759	18
Total equipment	12,631	4,535	8,096	N/A
Technology and other	1,120	493	627	12
Construction in progress	1,249	-	1,249	N/A
Total	$ 74,226	$ 20,320	$ 53,906	N/A

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

11. Accounts Payable and Other Current Liabilities

Millions	***Mar. 31, 2020***	*Dec. 31, 2019*
Income and other taxes payable	**$ 884**	$ 553
Accounts payable	**699**	748
Accrued wages and vacation	**365**	369
Current operating lease liabilities (Note 16)	**326**	362
Accrued casualty costs	**176**	189
Equipment rents payable	**105**	100
Interest payable	**23**	23
Other	**454**	496
Total accounts payable and other current liabilities	**$ 3,032**	$ 2,840

12. Transactions with Affiliates

We had working capital deficits of $380 million and $156 million at March 31, 2020, and December 31, 2019, 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 to UPC after satisfying all of our obligations. We may declare and pay dividends to UPC that approximate intercompany borrowings; however, there is no formal requirement to do so. Dividend declarations between us and UPC are 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.

Intercompany Transactions – In December of 2008, UPC established a borrowing limit based on our borrowing capacity and UPC implemented a market based interest rate. The current annual rate effective through June 2020 is 2.6% for borrowings from UPC and 2.7% for borrowings to UPC. The annual rate was 4.0% for borrowings either to or from UPC from July 2018 through June 2019 and 3.1% from July 2017 through June 2018. Interest accrues quarterly and is payable quarterly. Although payable on demand, we do not expect a payment from UPC within 12 months, or in the event of borrowing 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 March 31, 2020 and December 31, 2019, intercompany borrowings from UPC were $3.9 billion and $5.5 billion, respectively.

Related Party Transactions – We and other North American railroad companies jointly own TTX Company (TTX). We have 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*, we apply 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.

We had $1.4 billion recognized as investments related to TTX in our Condensed Consolidated Statements of Financial Position as of both March 31, 2020, and December 31, 2019. TTX car hire expenses of $96 million and $105 million for the three months ended March 31, 2020, and 2019, respectively, are included in equipment and other rents in our Condensed Consolidated Statements of Income. In addition, we had accounts payable to TTX of $65 million and $62 million as of March 31, 2020, and December 31, 2019, respectively.

13. Financial Instruments

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 Company's long-term debt are Level 2 inputs and obtained from an independent source. At March 31, 2020, the fair value of total third-party debt was $2.0 billion, approximately $97 million more than the carrying value. At December 31, 2019, the fair value of total third-party debt was $2.0 billion, approximately $110 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. The fair value of intercompany lendings to UPC approximates carrying value. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

14. Debt

Receivables Securitization Facility – As of both March 31, 2020, and December 31, 2019, we recorded $400 million of borrowings under our Receivables Facility as secured debt. (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 $1.3 billion as of March 31, 2020 and are recorded as operating lease liabilities at present value in our Consolidated Statements of Financial Position.

16. Leases

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 for all operating leases 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, 2020*	*Dec. 31, 2019*
Assets			
Operating leases	Operating lease assets	$ 1,773	$ 1,812
Finance leases	Net properties [a]	444	468
Total leased assets		$ 2,217	$ 2,280
Liabilities			
Current			
Operating leases	Accounts payable and other current liabilities	$ 326	$ 362
Finance leases	Third-party debt due within one year	119	114
Noncurrent			
Operating leases	Operating lease liabilities	1,339	1,471
Finance leases	Third-party debt due after one year	433	491
Total lease liabilities		$ 2,217	$ 2,438

[a] Finance lease assets are recorded net of accumulated amortization of $766 million and $797 million as of March 31, 2020 and December 31, 2019.

The lease cost components are classified as follows:

Millions, for the Three Months Ended March 31,	*Classification*	*2020*	*2019*
Operating lease cost [a]	Equipment and other rents	$ 69	$ 93
Finance lease cost			
Amortization of leased assets	Depreciation	17	18
Interest on lease liabilities	Interest expense	7	9
Net lease cost		$ 93	$ 120

[a] Includes short-term lease costs of $0.0 million and $0.2 million for the three months ended March 31, 2020, and 2019, respectively, and variable lease costs of $1.8 million and $1.9 million for the three months ended March 31, 2020, and 2019, respectively.

The following table presents aggregate lease maturities as of March 31, 2020:

Millions	*Operating Leases*	*Finance Leases*	*Total*
2020	$ 147	$ 84	$ 231
2021	302	142	444
2022	267	127	394
2023	226	88	314
2024	216	75	291
After 2024	777	124	901
Total lease payments	$ 1,935	$ 640	$ 2,575
Less: Interest	270	88	358
Present value of lease liabilities	$ 1,665	$ 552	$ 2,217

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

	Mar. 31 2020
Weighted-average remaining lease term (years)	
Operating leases	8.3
Finance leases	5.8
Weighted-average discount rate (%)	
Operating leases	3.7
Finance leases	5.2

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

Millions, for the Three Months Ended March 31,	***2020***	*2019*
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	**$ 210**	215
Operating cash flows from finance leases	**13**	17
Financing cash flows from finance leases	**41**	58
Leased assets obtained in exchange for finance lease liabilities	**-**	-
Leased assets obtained in exchange for operating lease liabilities	**45**	9

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, 2020. 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 $269 million to $295 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,*		***2020***		*2019*
Beginning balance	**$**	**264**	$	270
Current year accruals		**18**		18
Changes in estimates for prior years		**2**		(2)
Payments		**(15)**		(20)
Ending balance at March 31	**$**	**269**	$	266
Current portion, ending balance at March 31	**$**	**61**	$	66

We reassess our estimated insurance recoveries annually and have recognized an asset for estimated insurance recoveries at both March 31, 2020, and December 31, 2019. 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 359 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, 20 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

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

Our environmental liability activity was as follows:

Millions, *for the Three Months Ended March 31,*		***2020***		*2019*
Beginning balance	**$**	**227**	$	223
Accruals		**15**		10
Payments		**(16)**		(17)
Ending balance at March 31	**$**	**226**	$	216
Current portion, ending balance at March 31	**$**	**64**	$	63

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 Corporation'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 Corporation 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, 2020, and December 31, 2019, we were contingently liable for $15 million in guarantees. The fair value of these obligations as of both March 31, 2020, and December 31, 2019 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.