UNION PACIFIC RAILROAD COMPANY and CONSOLIDATED SUBSIDIARY COMPANIES

Condensed Consolidated Financial Statements for the Quarterly Period Ended March 31, 2009

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,	***2009***	*2008*
Operating revenues:		
Freight revenues	**$ 3,240**	$ 4,059
Other revenues	**170**	200
Total operating revenues	**3,410**	4,259
Operating expenses:		
Compensation and benefits	**1,060**	1,118
Purchased services and materials	**396**	465
Fuel	**386**	957
Depreciation	**345**	340
Equipment and other rents	**317**	341
Other	**234**	252
Total operating expenses	**2,738**	3,473
Operating income	**672**	786
Other income (note 5)	**22**	19
Interest expense	**(90)**	(110)
Income before income taxes	**604**	695
Income taxes	**(210)**	(243)
Net income	**$ 394**	$ 452

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 of Dollars	***Mar. 31, 2009***	*Dec. 31, 2008*
Assets		
Current assets:		
Cash and cash equivalents	**$ 174**	$ 295
Accounts receivable, net	**476**	517
Materials and supplies	**446**	450
Current deferred income taxes	**289**	274
Other current assets	**225**	249
Total current assets	**1,610**	1,785
Investments	**926**	957
Net properties (note 8)	**35,847**	35,692
Other assets	**190**	162
Total assets	**$ 38,573**	$ 38,596
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (note 9)	**$ 2,199**	$ 2,174
Third-party debt due within one year	**137**	220
Total current liabilities	**2,336**	2,394
Intercompany borrowings from UPC (note 10)	**3,657**	3,801
Third-party debt due after one year	**1,458**	1,507
Deferred income taxes	**10,274**	10,237
Other long-term liabilities	**2,586**	2,627
Commitments and contingencies (note 12)		
Total liabilities	**20,311**	20,566
Common shareholders' equity:		
Common shares, $10.00 par value, 9,200 authorized; 4,465 outstanding		
Class A stock, $10.00 par value, 800 authorized; 388 outstanding		
Paid-in-surplus	**4,782**	4,782
Retained earnings	**14,210**	13,952
Accumulated other comprehensive loss (note 7)	**(730)**	(704)
Total common shareholders' equity	**18,262**	18,030
Total liabilities and common shareholders' equity	**$ 38,573**	$ 38,596

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 of Dollars, for the Three Months Ended March 31,	***2009***	*2008*
Operating Activities		
Net income	**$ 394**	$ 452
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**345**	340
Deferred income taxes and unrecognized tax benefits	**20**	34
Stock-based compensation expense	**9**	10
Net gain from asset sales	**(6)**	(11)
Other operating activities, net	**(49)**	9
Changes in current assets and liabilities, net	**94**	54
Cash provided by operating activities	**807**	888
Investing Activities		
Capital investments	**(526)**	(620)
Proceeds from asset sales	**12**	28
Other investing activities, net	**(2)**	(31)
Cash used in investing activities	**(516)**	(623)
Financing Activities		
Debt repaid	**(131)**	(66)
Dividends paid to UPC	**(136)**	(114)
Intercompany payments	**(144)**	(127)
Other financing activities, net	**(1)**	(2)
Cash used in financing activities	**(412)**	(309)
Net change in cash and cash equivalents	**(121)**	(44)
Cash and cash equivalents at beginning of year	**295**	256
Cash and cash equivalents at end of period	**$ 174**	$ 212
Changes in Current Assets and Liabilities		
Accounts receivable, net	**$ 41**	$ (78)
Materials and supplies	**4**	(61)
Other current assets	**24**	52
Accounts payable and other current liabilities	**25**	141
Total	**$ 94**	$ 54
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	**$ 72**	$ 105
Cash (paid)/refunded for:		
Interest, net of amounts capitalized	**$ (113)**	$ (113)
Income taxes	**100**	32

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 of Dollars *Thousands of Shares*	*Common Shares*	*Class A Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*Accumulated Other Comprehensive Loss (note 7)*	*Total*
Balance at January 1, 2008	4,465	388	$ -	$4,782	$12,074	$ (74)	$16,782
Comprehensive income:							
Net income			-	-	452	-	452
Other comp. loss			-	-	-	(2)	(2)
Total comp. income (note 7)			-	-	452	(2)	450
Dividends declared	-	-	-	-	(114)	-	(114)
Balance at March 31, 2008	4,465	388	$ -	$4,782	$12,412	$ (76)	$17,118
Balance at January 1, 2009	4,465	388	$ -	$4,782	$13,952	$(704)	$18,030
Comprehensive income:							
Net income			-	-	394	-	394
Other comp. loss			-	-	-	(26)	(26)
Total comp. income (note 7)			-	-	394	(26)	368
Cash dividends declared	-	-	-	-	(136)	-	(136)
Balance at March 31, 2009	**4,465**	**388**	**$ -**	**$4,782**	**$14,210**	**$(730)**	**$18,262**

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

UNION PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For purposes of this report, unless the context otherwise requires, all references herein to the “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 – Union Pacific Railroad Company (the Company), a Class I railroad incorporated in Delaware and an indirect wholly-owned subsidiary of Union Pacific Corporation, together with a number of wholly-owned and majority owned subsidiaries, operates various railroad and railroad-related businesses. Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America. Our Consolidated Statement of Financial Position at December 31, 2008, is derived from audited financial statements. This Quarterly Report should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2008 Annual Report. The results of operations for the three months ended March 31, 2009, are not necessarily indicative of the results for the entire year ending December 31, 2009.

2. Operations and Segmentation – We are a Class I railroad that operates in the United States. We have one reportable operating segment. Although revenues are analyzed by commodity group, we analyze the net financial results as one segment due to the integrated nature of our rail network. The following table provides revenue by commodity group:

	Three Months Ended March 31,	
Millions of Dollars	***2009***	*2008*
Agricultural	**$ 661**	$ 756
Automotive	**162**	363
Chemicals	**513**	603
Energy	**807**	857
Industrial Products	**546**	773
Intermodal	**551**	707
Total freight revenues	**3,240**	4,059
Other revenues	**170**	200
Total operating revenues	**$ 3,410**	$ 4,259

3. Stock-Based Compensation – On May 28, 2008, UPC completed a two-for-one stock split, effected in the form of a 100% stock dividend. The stock split entitled all UPC shareholders of record at the close of business on May 12, 2008, to receive one additional share of UPC’s 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 restated to reflect the stock split for all periods presented. We participate in the Corporation’s stock incentive programs. The Corporation has several stock based compensation plans under which our 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 when retention shares vest. Information regarding stock-based compensation appears in the table below:

	Three Months Ended March 31,	
Millions of Dollars	***2009***	*2008*
Stock-based compensation, before tax:		
Stock options	**$ 3**	$ 4
Retention awards	**6**	6
Total stock-based compensation, before tax	**$ 9**	$ 10

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

	Three Months Ended March 31,	
Weighted-Average Assumptions	***2009***	*2008*
Risk-free interest rate	**1.9%**	2.8%
Dividend yield	**2.3%**	1.4%
Expected life (years)	**5.1**	5.3
Volatility	**31.3%**	22.2%
Weighted-average grant-date fair value of options granted	**$ 11.33**	$ 13.35

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

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at March 31, 2009 are subject to performance or market-based vesting conditions.

At March 31, 2009, there was $23 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.9 years. Additional information regarding stock option exercises appears in the table below:

	Three Months Ended March 31,	
Millions of Dollars	***2009***	*2008*
Intrinsic value of stock options exercised	**$ 1**	$ 31
UPC's tax benefit realized from option exercises	**-**	12
Aggregate grant-date fair value of stock options vested	**20**	15

Retention Awards – The fair value of retention awards is based on the closing price of the stock on the grant date. Dividend equivalents are paid to participants during the vesting periods. Retention awards are granted at no cost to the employee and vest over periods lasting up to four years. At March 31, 2009, there was $76 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.3 years.

Performance Retention Awards – In February 2009, 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 January 2006, January 2007, and January 2008, including using annual return on invested capital (ROIC) as the performance measure. Additionally, a change was made to an underlying assumption used in connection with calculating a component of ROIC. A lower discount rate will be used in both the numerator and denominator when calculating the present value of our future operating lease payments to reflect changes to interest rates and our financing costs. 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 our 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 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 2009 grant were as follows:

	Three Months Ended March 31, 2009
Dividend per share per quarter	$ 0.27
Risk-free interest rate at date of grant	1.9%

At March 31, 2009, there was $27 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 2.2 years. A portion of this expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

4. Retirement Plans

Pension and Other Postretirement Benefits

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

Other Postretirement Benefits (OPEB) – We provide defined contribution medical and life insurance benefits for eligible retirees through the Corporation's programs. These benefits are funded as medical claims and life insurance premiums are paid.

Expense

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

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

	Pension		*OPEB*	
Millions of Dollars	***2009***	*2008*	***2009***	*2008*
Service cost	**$ 10**	$ 9	**$ 1**	$ 1
Interest cost	**34**	33	**6**	5
Expected return on plan assets	**(40)**	(38)	**-**	-
Amortization of:				
Prior service cost/(credit)	**2**	2	**(9)**	(8)
Actuarial loss	**6**	1	**4**	1
Net periodic benefit cost/(benefit)	**$ 12**	$ 7	**$ 2**	$ (1)

5. Other Income – Other income included the following:

	Three Months Ended March 31,	
Millions of Dollars	***2009***	*2008*
Rental income	**$ 20**	$ 24
Net gain on non-operating asset dispositions	**6**	11
Interest income	**1**	1
Sale of receivables fees	**(3)**	(7)
Non-operating environmental costs and other	**(2)**	(10)
Total	**$ 22**	$ 19

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

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 1999, and the statute of limitations bars any additional tax assessments. Some interest calculations remain open back to 1986. The IRS has completed its examinations and issued notices of deficiency for tax years 1999 through 2004. We disagree with many of their proposed adjustments, and we are at IRS Appeals for these years. The IRS is examining our tax returns for tax years 2005 and 2006. Additionally, several state tax authorities are examining our state income tax returns for tax years 2000 through 2006.

At March 31, 2009, our liability for unrecognized tax benefits was $147 million, of which $3 million was classified as current.

In February of 2009, California enacted legislation that changed how we determine the amount of our income subject to California tax. This change reduced our deferred tax expense by $14 million in the first quarter.

7. Comprehensive Income/(Loss) – Comprehensive income/(loss) was as follows:

Millions of Dollars	*Three Months Ended March 31,* **2009**	*2008*
Net income	**$ 394**	$ 452
Other comprehensive income/(loss):		
Defined benefit plans	**(13)**	(4)
Foreign currency translation	**(13)**	3
Derivatives	**-**	(1)
Total other comprehensive income/(loss) [a]	**(26)**	(2)
Total comprehensive income	**$ 368**	$ 450

[a] Net of deferred taxes of $9 million and $2 million during the three months ended March 31, 2009 and 2008, respectively.

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

Millions of Dollars	***Mar. 31, 2009***	*Dec. 31, 2008*
Defined benefit plans	**$ (672)**	$ (659)
Foreign currency translation	**(54)**	(41)
Derivatives	**(4)**	(4)
Total	**$ (730)**	$ (704)

8. Properties

The following table lists the major categories of property and equipment, as well as the average composite depreciation rate for each category:

Millions of Dollars, Except Percentages	***Mar. 31, 2009***	*Dec. 31, 2008*	*Depreciation Rate for 2009*
Land	**$ 4,858**	$ 4,857	N/A
Road			
Rail and other track material	**11,524**	11,366	3.6%
Ties	**6,944**	6,827	2.7%
Ballast	**3,689**	3,635	2.9%
Other [a]	**12,658**	12,520	2.4%
Total Road	**34,815**	34,348	2.9%
Equipment			
Locomotives	**5,149**	5,157	4.7%
Freight cars	**1,963**	1,985	4.2%
Work equipment and other	**159**	158	3.6%
Total Equipment	**7,271**	7,300	4.5%
Technology and other	**472**	457	12.6%
Construction in progress	**899**	938	N/A
Total properties	**48,315**	47,900	N/A
Accumulated depreciation	**(12,468)**	(12,208)	N/A
Net properties	**$ 35,847**	$ 35,692	N/A

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

9. Accounts Payable and Other Current Liabilities

Millions of Dollars	***Mar. 31, 2009***	*Dec. 31, 2008*
Accounts payable	**$ 631**	$ 625
Income and other taxes	**381**	207
Accrued wages and vacation	**361**	365
Accrued casualty costs	**314**	323
Equipment rents payable	**71**	92
Interest payable	**41**	65
Other	**400**	497
Total accounts payable and other current liabilities	**$ 2,199**	$ 2,174

10. Transactions With Affiliates

At March 31, 2009 and December 31, 2008, we had $726 million and $609 million working capital deficit balances, respectively, relating to UPC's management of our cash position. As part of UPC's cash management activities, we advance excess cash (cash available after satisfying all of our obligations and paying dividends to UPC) to UPC. We declare and pay dividends to UPC that typically approximate the dividends UPC declares to its shareholders; however, there is no formal requirement to do so. The dividend declaration between us and UPC is determined solely by our Board of Directors. To the extent we require additional cash for use in our operations, UPC makes such funds available to us for borrowing. We treat these transactions as intercompany borrowings in the Condensed Consolidated Statements of Financial Position.

The majority of our intercompany borrowings from UPC relate to the acquisitions of the Chicago and North Western Transportation Company and Southern Pacific Rail Corporation that were funded by UPC on our behalf. We assumed these acquisition costs in the form of intercompany borrowings for UPC. In December 2008, the Corporation established a borrowing limit based on the Railroad's borrowing capacity and implemented a market based interest rate. Currently, the annual rate is 5.8%. Prior to December 2008, the intercompany borrowings accrued interest at an annual rate of 7.5%. Interest accrues quarterly and is payable on demand. We do not expect to be required by UPC to pay back the intercompany borrowings within the next 12 months. Intercompany borrowings are unsecured and rank equally with all of our other unsecured indebtedness.

UPC provides us with various services, including strategic planning, legal, treasury, accounting, auditing, insurance, human resources, and corporate affairs. Pursuant to a services agreement, UPC provides services to us, and we pay our share of the costs as determined by an independent review. Billings for these services were $9 million and $14 million for the three months ended March 31, 2009 and 2008, respectively.

11. Financial Instruments

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

Market and Credit Risk – We address market risk related to derivative financial instruments by selecting instruments with value fluctuations that highly correlate with the underlying hedged item. We manage credit risk related to derivative financial instruments, which is minimal, by requiring high credit standards for counterparties and periodic settlements. At March 31, 2009 and December 31, 2008, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

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

Interest Rate Cash Flow Hedges – We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At March 31, 2009 and December 31, 2008, we had reductions of $4 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of March 31, 2009 and December 31, 2008, we had no interest rate cash flow hedges outstanding.

Sale of Receivables – We transfer most of our accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary, as part of a sale of receivables facility. UPRI sells, without recourse on a 364-day revolving basis, an undivided interest in such accounts receivable to investors. The total capacity to sell undivided interests to investors under the facility was $700 million at both March 31, 2009 and December 31, 2008. The value of the outstanding undivided interest held by investors under the facility was $500 million and $584 million at March 31, 2009 and December 31, 2008, respectively. During the three months ended March 31, 2009, UPRI reduced the outstanding undivided interest held by investors due to a decrease in available receivables. The value of the outstanding undivided interest held by investors is not included in our Condensed Consolidated Financial Statements. The value of the undivided interest held by investors was supported by $911 million and $1,015 million of accounts receivable held by UPRI at March 31, 2009 and December 31, 2008, respectively. At March 31, 2009 and December 31, 2008, the value of the interest retained by UPRI was $411 million and $431 million, respectively. This retained interest is included in accounts receivable in our Condensed Consolidated Financial Statements. The interest sold to investors is sold at carrying value, which approximates fair value, and there is no gain or loss recognized from the transaction.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of March 31, 2009. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

We have been designated to service the sold receivables; however, we do not recognize any servicing asset or liability as the servicing fees adequately compensate us for these responsibilities. We collected approximately $3.5 billion and $4.1 billion during the three months ended March 31, 2009 and 2008, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the sale of receivables program are included in other income and were $3 million and $7 million for the three months ended March 31, 2009 and 2008, respectively. The costs include interest, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability.

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. At May 21, 2009 the amount utilized under the sale of receivables program was $400 million.

12. 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 third-party actuaries to assist us in measuring the expense and liability, including unasserted claims. The Federal Employers' Liability Act (FELA) governs compensation for work-related accidents. Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. We offer a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 88% of the recorded liability related to asserted claims, and approximately 12% related to unasserted claims at March 31, 2009. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

	Three Months Ended March 31,	
Millions of Dollars	***2009***	*2008*
Beginning balance	**$ 620**	$ 592
Accruals	**54**	61
Payments	**(40)**	(43)
Ending balance at March 31	**$ 634**	$ 609
Current portion, ending balance at March 31	**$ 185**	$ 203

Asbestos – We are a defendant in a number of lawsuits in which current and former employees and other parties allege exposure to asbestos. Additionally, we have received claims for asbestos exposure that have not been litigated. The claims and lawsuits (collectively referred to as "claims") allege occupational illness resulting from exposure to asbestos-containing products. In most cases, the claimants do not have credible medical evidence of physical impairment resulting from the alleged exposures. Additionally, most claims filed against us do not specify an amount of alleged damages.

Our asbestos-related liability activity was as follows:

	Three Months Ended March 31,	
Millions of Dollars	***2009***	*2008*
Beginning balance	**$ 213**	$ 265
Accruals	**-**	-
Payments	**(3)**	(4)
Ending balance at March 31	**$ 210**	$ 261
Current portion, ending balance at March 31	**$ 12**	$ 11

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at March 31, 2009, and December 31, 2008.

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

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We identified 332 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 33 sites that are the subject of actions taken by the U.S. government, 18 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 an environmental issue has been identified with respect to property owned, leased, or otherwise used in our business, we and our consultants perform environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and such costs can be reasonably estimated. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At March 31, 2009, approximately 15% of our environmental liability was discounted at 2.87%, while approximately 13% of our environmental liability was discounted at 3.53% at December 31, 2008.

Our environmental liability activity was as follows:

	Three Months Ended March 31,	
Millions of Dollars	***2009***	*2008*
Beginning balance	**$ 209**	$ 209
Accruals	**3**	11
Payments	**(14)**	(9)
Ending balance at March 31	**$ 198**	$ 211
Current portion, ending balance at March 31	**$ 58**	$ 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.

Guarantees – At March 31, 2009, we were contingently liable for $432 million in guarantees. We have recorded a liability of $4 million for the fair value of these obligations as of both March 31, 2009, and December 31, 2008. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

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

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