UNION PACIFIC RAILROAD COMPANY and CONSOLIDATED SUBSIDIARY COMPANIES

Condensed Consolidated Financial Statements for the Quarterly Period Ended June 30, 2009

UNION PACIFIC RAILROAD COMPANY and
CONSOLIDATED SUBSIDIARY COMPANIES

Index to Condensed Consolidated Financial Statements **Page**

Condensed Consolidated Statements of Income (Unaudited)
For the Three Months Ended June 30, 2009 and 2008 3

Condensed Consolidated Statements of Income (Unaudited)
For the Six Months Ended June 30, 2009 and 2008 4

Condensed Consolidated Statements of Financial Position (Unaudited)
At June 30, 2009 and December 31, 2008 5

Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2009 and 2008 6

Condensed Consolidated Statements of Changes in Common Shareholders' Equity (Unaudited)
For the Six Months Ended June 30, 2009 and 2008 7

Notes to the Condensed Consolidated Financial Statements (Unaudited) 8

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions, for the Three Months Ended June 30,	***2009***	*2008*
Operating revenues:		
Freight revenues	**$ 3,121**	$ 4,349
Other revenues	**175**	208
Total operating revenues	**3,296**	4,557
Operating expenses:		
Compensation and benefits	**964**	1,084
Purchased services and materials	**386**	489
Fuel	**370**	1,159
Depreciation	**355**	346
Equipment and other rents	**306**	337
Other	**164**	213
Total operating expenses	**2,545**	3,628
Operating income	**751**	929
Other income (note 5)	**134**	14
Interest expense	**(94)**	(106)
Income before income taxes	**791**	837
Income taxes	**(289)**	(305)
Net income	**$ 502**	$ 532

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,	***2009***	*2008*
Operating revenues:		
Freight revenues	**$ 6,361**	$ 8,408
Other revenues	**345**	408
Total operating revenues	**6,706**	8,816
Operating expenses:		
Compensation and benefits	**2,024**	2,202
Purchased services and materials	**782**	954
Fuel	**756**	2,116
Depreciation	**700**	686
Equipment and other rents	**623**	678
Other	**398**	465
Total operating expenses	**5,283**	7,101
Operating income	**1,423**	1,715
Other income (note 5)	**156**	33
Interest expense	**(184)**	(216)
Income before income taxes	**1,395**	1,532
Income taxes	**(499)**	(548)
Net income	**$ 896**	$ 984

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	***Jun. 30, 2009***	*Dec. 31, 2008*
Assets		
Current assets:		
Cash and cash equivalents	**$ 279**	$ 295
Accounts receivable, net	**557**	517
Materials and supplies	**507**	450
Current deferred income taxes	**281**	274
Other current assets	**216**	249
Total current assets	**1,840**	1,785
Investments	**963**	957
Net properties (note 8)	**36,755**	35,692
Other assets	**162**	162
Total assets	**$ 39,720**	$ 38,596
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (note 9)	**$ 2,204**	$ 2,174
Third-party debt due within one year (note 12)	**174**	220
Total current liabilities	**2,378**	2,394
Intercompany borrowings from UPC (note 10)	**3,544**	3,801
Third-party debt due after one year (note 12)	**2,218**	1,507
Deferred income taxes	**10,445**	10,237
Other long-term liabilities	**2,491**	2,627
Commitments and contingencies (note 13)		
Total liabilities	**21,076**	20,566
Common shareholders' equity:		
Common shares, $10.00 par value, 9,200 authorized; 4,465 outstanding		
Class A stock, $10.00 par value, 800 authorized; 388 outstanding		
Paid-in-surplus	**4,782**	4,782
Retained earnings	**14,576**	13,952
Accumulated other comprehensive loss (note 7)	**(714)**	(704)
Total common shareholders' equity	**18,644**	18,030
Total liabilities and common shareholders' equity	**$ 39,720**	$ 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 Corporation and Subsidiary Companies

Millions of Dollars, for the Six Months Ended June 30,		***2009***		*2008*
Operating Activities				
Net income	**$**	**896**	$	984
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation		**700**		686
Deferred income taxes and unrecognized tax benefits		**212**		165
Net gain on non-operating asset dispositions		**(132)**		(19)
Other operating activities, net		**(113)**		12
Changes in current assets and liabilities:				
Accounts receivable, net		**(40)**		(95)
Materials and supplies		**(57)**		(127)
Other current assets		**33**		(49)
Accounts payable and other current liabilities		**30**		285
Cash provided by operating activities		**1,529**		1,842
Investing Activities				
Capital investments		**(1,079)**		(1,324)
Proceeds from asset sales		**142**		45
Other investing activities, net		**12**		(59)
Cash used in investing activities		**(925)**		(1,338)
Financing Activities				
Debt repaid		**(177)**		(97)
Dividends paid		**(272)**		(229)
Intercompany payments		**(257)**		(100)
Other financing activities, net		**86**		(3)
Cash used in financing activities		**(620)**		(429)
Net change in cash and cash equivalents		**(16)**		75
Cash and cash equivalents at beginning of year		**295**		256
Cash and cash equivalents at end of period	**$**	**279**	$	331
Supplemental Cash Flow Information				
Non-cash investing and financing activities:				
Capital lease financings	**$**	**742**	$	175
Capital investments accrued but not yet paid		**62**		93
Settlement of current liabilities for debt		**14**		-
Cash paid for:				
Interest, net of amounts capitalized	**$**	**(195)**	$	(225)
Income taxes		**(75)**		(191)

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*	*Treasury Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*AOCI [a]*	*Total*
Balance at January 1, 2008	4,465	388	$ -	$4,782	$12,074	$ (74)	$16,782
Comprehensive income:							
Net income			-	-	984	-	984
Other comp. income			-	-	-	5	5
Total comp. income (note 7)			-	-	984	5	989
Cash dividends declared	-	-	-	-	(229)	-	(229)
Balance at June 30, 2008	4,465	388	$ -	$4,782	$12,829	$ (69)	$17,542
Balance at January 1, 2009	4,465	388	$ -	$4,782	$13,952	$(704)	$18,030
Comprehensive income:							
Net income			-	-	896	-	896
Other comp. loss			-	-	-	(10)	(10)
Total comp. income (note 7)			-	-	896	(10)	886
Cash dividends declared	-	-	-	-	(272)	-	(272)
Balance at June 30, 2009	**4,465**	**388**	**$ -**	**$4,782**	**$14,576**	**$(714)**	**$18,644**

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

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 and six months ended June 30, 2009, are not necessarily indicative of the results for the entire year ending December 31, 2009.

We evaluated the effects of all subsequent events through August 14, 2009, the date of this report.

2. Operations and Segmentation – We are a Class I railroad that operates in the United States. We have one reportable operating segment. Although revenue is 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 freight revenue by commodity group:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions of Dollars	***2009***	*2008*	***2009***	*2008*
Agricultural	**$ 618**	$ 778	**$ 1,279**	$ 1,534
Automotive	**163**	352	**325**	715
Chemicals	**499**	654	**1,012**	1,257
Energy	**715**	919	**1,522**	1,776
Industrial Products	**531**	877	**1,077**	1,650
Intermodal	**595**	769	**1,146**	1,476
Total freight revenues	**3,121**	4,349	**6,361**	8,408
Other revenues	**175**	208	**345**	408
Total operating revenues	**$ 3,296**	$ 4,557	**$ 6,706**	$ 8,816

3. Stock-Based Compensation – 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:

Millions of Dollars	*Three Months Ended June 30,* **2009**	*2008*	*Six Months Ended June 30,* **2009**	*2008*
Stock-based compensation, before tax:				
Stock options	**$ 3**	$ 4	**$ 6**	$ 8
Retention awards	**7**	8	**13**	14
Total stock-based compensation, before tax	**$ 10**	$ 12	**$ 19**	$ 22

Stock Options – The fair value of UPC's 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:

Weighted-Average Assumptions	*Six Months Ended June 30,* **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 June 30, 2009 are subject to performance or market-based vesting conditions.

At June 30, 2009, there was $20 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.6 years. Additional information regarding stock option exercises appears in the table below:

Millions of Dollars	*Three Months Ended June 30,* **2009**	*2008*	*Six Months Ended June 30,* **2009**	*2008*
Intrinsic value of stock options exercised	**$ -**	$ 68	**$ 1**	$ 99
UPC's tax benefit realized from option exercises	**1**	25	**1**	37
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 UPC's stock on the grant date. Dividend 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, 2009, there was $68 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.1 years.

Performance Retention Awards – In February 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 2007 and 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. The discount rate used in both the numerator and denominator when calculating the present value of our future operating lease payments may fluctuate 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:

	2009
UPC's dividend per share per quarter	$ 0.27
Risk-free interest rate at date of grant	1.9%

At June 30, 2009, there was $24 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.9 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 cost were as follows:

	Pension			
	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions of Dollars	***2009***	*2008*	***2009***	*2008*
Service cost	**$ 9**	$ 9	**$ 19**	$ 18
Interest cost	**35**	33	**69**	66
Expected return on plan assets	**(41)**	(38)	**(81)**	(76)
Amortization of:				
Prior service cost	**1**	1	**3**	3
Actuarial loss	**7**	2	**13**	3
Net periodic benefit cost	**$ 11**	$ 7	**$ 23**	$ 14

The components of our net periodic OPEB cost/(benefit) were as follows:

	OPEB			
	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions of Dollars	***2009***	*2008*	***2009***	*2008*
Service cost	**$ 1**	$ 1	**$ 2**	$ 2
Interest cost	**7**	5	**13**	10
Amortization of:				
Prior service (credit)	**(8)**	(9)	**(17)**	(17)
Actuarial loss	**4**	2	**8**	3
Net periodic benefit cost/(benefit)	**$ 4**	$ (1)	**$ 6**	$ (2)

Cash Contributions

As of June 30, 2009, UPC has made $45 million of cash contributions to the qualified pension plan. Additional contributions made in the second half of the year will be based on cash generated from operations and financial market considerations. All contributions made to the qualified pension plan during the six months ended June 30, 2009 were voluntary and were made with cash generated from operations.

5. Other Income – Other income included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions of Dollars	***2009***	*2008*	***2009***	*2008*
Rental income	**$ 19**	$ 19	**$ 39**	$ 43
Net gain on non-operating asset dispositions	**126**	8	**132**	19
Interest income	**1**	1	**2**	2
Sale of receivables fees	**(2)**	(5)	**(5)**	(12)
Non-operating environmental costs and other	**(10)**	(9)	**(12)**	(19)
Total	**$ 134**	$ 14	**$ 156**	$ 33

In June of 2009, we closed a $118 million sale of land to the Regional Transportation District (RTD) in Colorado, resulting in a $116 million pre-tax gain. The agreement with the RTD involves a 33-mile industrial lead track in Boulder, Colorado.

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. UPC disagrees with many of their proposed adjustments, and UPC is at IRS Appeals for these years. During the second quarter of 2009, the IRS completed its examination and issued a notice of deficiency for tax years 2005 and 2006. UPC disagrees with many of their proposed adjustments, and will contest the adjustments through the IRS Appeals process and potentially through litigation. Additionally, several state tax authorities are examining UPC's state income tax returns for tax years 2000 through 2006.

At June 30, 2009, our liability for unrecognized tax benefits was $169 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions of Dollars	***2009***	*2008*	***2009***	*2008*
Net income	**$ 502**	$ 532	**$ 896**	$ 984
Other comprehensive income/(loss):				
Defined benefit plans	**2**	-	**(11)**	(4)
Foreign currency translation	**14**	6	**1**	9
Derivatives	**-**	1	**-**	-
Total other comprehensive income/(loss) [a]	**16**	7	**(10)**	5
Total comprehensive income	**$ 518**	$ 539	**$ 886**	$ 989

[a] Net of deferred taxes of $10 million and $1 million during the three and six months ended June 30, 2009, respectively, and $4 million and $6 million during the three and six months ended June 30, 2008, respectively.

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

Millions of Dollars	***Jun. 30, 2009***	*Dec. 31, 2008*
Defined benefit plans	**$ (670)**	$ (659)
Foreign currency translation	**(40)**	(41)
Derivatives	**(4)**	(4)
Total	**$ (714)**	$ (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	***Jun. 30, 2009***	*Dec. 31, 2008*	*Depreciation Rate for 2009*
Land	**$ 4,847**	$ 4,857	N/A
Road			
Rail and other track material	**11,694**	11,366	3.6%
Ties	**7,061**	6,827	2.7%
Ballast	**3,756**	3,635	2.9%
Other [a]	**12,758**	12,520	2.4%
Total Road	**35,269**	34,348	2.9%
Equipment			
Locomotives	**5,900**	5,157	5.0%
Freight cars	**1,956**	1,985	4.2%
Work equipment and other	**163**	158	3.6%
Total Equipment	**8,019**	7,300	4.8%
Technology and other	**496**	457	12.5%
Construction in progress	**875**	938	N/A
Total properties	**49,506**	47,900	N/A
Accumulated depreciation	**(12,751)**	(12,208)	N/A
Net properties	**$ 36,755**	$ 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	***Jun. 30, 2009***	*Dec. 31, 2008*
Accounts payable	**$ 630**	$ 625
Accrued wages and vacation	**353**	365
Income and other taxes	**335**	207
Accrued casualty costs	**325**	323
Equipment rents payable	**85**	92
Dividends and interest	**54**	65
Other	**422**	497
Total accounts payable and other current liabilities	**$ 2,204**	$ 2,174

10. Transactions With Affiliates

At June 30, 2009 and December 31, 2008, we had $538 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 from UPC. In December 2008, the Corporation established a borrowing limit based on our borrowing capacity and implemented a market based interest rate. Currently, the annual rate is 6.4%. The annual rate was 5.8% from December 2008 through June 2009. 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 $23 million and $32 million for the six months ended June 30, 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 interest rate and fuel 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 June 30, 2009 and December 31, 2008, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

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, 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 June 30, 2009 and December 31, 2008, we had no interest rate cash flow hedges outstanding.

Fair Value of Debt Instruments – The fair value of our short- and long-term debt was estimated using quoted market prices, where available, or current borrowing rates. At June 30, 2009, the fair value of total debt was $2.5 billion, approximately $111 million more than the carrying value. At December 31, 2008, the fair value of total debt was $1.7 billion, approximately $72 million less than the carrying value. At June 30, 2009 and December 31, 2008, approximately $164 million of fixed-rate debt securities contained call provisions that allowed us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par.

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 June 30, 2009 and December 31, 2008. The value of the outstanding undivided interest held by investors under the facility was $400 million and $584 million at June 30, 2009 and December 31, 2008, respectively. During the six months ended June 30, 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 $847 million and $1,015 million of accounts receivable held by UPRI at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009 and December 31, 2008, the value of the interest retained by UPRI was $447 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 June 30, 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 $3.2 billion and $4.5 billion during the three months ended June 30, 2009 and 2008, respectively, and $6.7 billion and $8.6 billion during the six months ended June 30, 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 $2 million and $5 million for the three months ended June 30, 2009 and 2008, respectively, and $5 million and $12 million for the six months ended June 30, 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.

The sale of receivables facility expires in August 2009, and we currently intend to renew the facility for a 364-day period with terms comparable to facilities of similarly situated sellers.

12. Debt – During the second quarter of 2009, we restructured lease agreements for 813 locomotives resulting in a change in lease classification from operating to capital. As part of the restructuring arrangements, we received $87 million in cash consideration. We recorded capital lease assets of approximately $742 million and related capital lease obligations totaling approximately $843 million. Included in our capital lease obligations is the $87 million in cash consideration and $14 million of accrued operating lease payables that were reclassified as part of our capital lease obligations. Capital lease obligations are reported in our Condensed Consolidated Statements of Financial Position as debt.

13. 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 86% of the recorded liability related to asserted claims, and approximately 14% related to unasserted claims at June 30, 2009. Cost estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

	Six Months Ended June 30,	
Millions of Dollars	***2009***	*2008*
Beginning balance	**$ 620**	$ 592
Accruals	**49**	108
Payments	**(86)**	(85)
Ending balance at June 30	**$ 583**	$ 615
Current portion, ending balance at June 30	**$ 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:

	Six Months Ended June 30,	
Millions of Dollars	***2009***	*2008*
Beginning balance	**$ 213**	$ 265
Accruals	**-**	-
Payments	**(5)**	(7)
Ending balance at June 30	**$ 208**	$ 258
Current portion, ending balance at June 30	**$ 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 June 30, 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; or 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 323 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 32 sites that are the subject of actions taken by the U.S. government, 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 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 June 30, 2009, approximately 14% of our environmental liability was discounted at 3.29%, while approximately 13% of our environmental liability was discounted at 3.53% at December 31, 2008.

Our environmental liability activity was as follows:

Millions of Dollars	Six Months Ended June 30, 2009	2008
Beginning balance	**$ 209**	$ 209
Accruals	**13**	20
Payments	**(23)**	(23)
Ending balance at June 30	**$ 199**	$ 206
Current portion, ending balance at June 30	**$ 59**	$ 59

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 June 30, 2009, we were contingently liable for $418 million in guarantees. We have recorded a liability of $4 million for the fair value of these obligations as of both June 30, 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.

14. 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.

15. Accounting Pronouncements – In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* (FAS 168). The Codification will become the source of authoritative GAAP recognized by the FASB to be applied by

nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of FAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. FAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. FAS 168 is not expected to have a material impact on our financial statements.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167). FAS 167 retains the scope of Interpretation 46(R), *Consolidation of Variable Interest Entities*, with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*. FAS 167 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. FAS 167 is not expected to have a material impact on our financial statements.

In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140* (FAS 166). On and after the effective date of FAS 166 , the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. FAS 166 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. FAS 166 is not expected to have a material impact on our financial statements.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events* (FAS 165). FAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. FAS 165 was effective for interim or annual financial periods ending after June 15, 2009. The adoption of FAS 165 did not affect our consolidated financial position, results of operations, or cash flows.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, to require disclosures about fair values of financial instruments for interim reporting periods as well as in annual financial statements. The FSP also amends APB Opinion No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FSP was effective for interim reporting periods ending after June 15, 2009. The adoption of this FSP did not affect our consolidated financial position, results of operations, or cash flows.