UNION PACIFIC RAILROAD COMPANY and CONSOLIDATED SUBSIDIARY COMPANIES

Consolidated Financial Statements as of December 31, 2007 and 2006 and for the Three Years Ended December 31, 2007 and Report of Independent Registered Public Accounting Firm

UNION PACIFIC RAILROAD COMPANY and
CONSOLIDATED SUBSIDIARY COMPANIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Union Pacific Railroad Company, its Directors, and Shareholders:

We have audited the accompanying consolidated statements of financial position of Union Pacific Railroad Company (an indirect wholly owned subsidiary of Union Pacific Corporation) and Consolidated Subsidiary Companies (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in common shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Union Pacific Railroad Company and Consolidated Subsidiary Companies as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP

Omaha, Nebraska
February 15, 2008

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Union Pacific Railroad Company (an indirect wholly-owned subsidiary of Union Pacific Corporation) and Consolidated Subsidiary Companies (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on our assessment management believes that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 5.

February 14, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Union Pacific Railroad Company, its Directors, and Shareholders:

We have audited the internal control over financial reporting of Union Pacific Railroad Company (an indirect wholly owned subsidiary of Union Pacific Corporation) and Consolidated Subsidiary Companies (the "Company") as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated February 15, 2008 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption, in 2006, of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

Deloitte & Touche LLP

Omaha, Nebraska
February 15, 2008

CONSOLIDATED STATEMENTS OF INCOME

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions of Dollars, for the Years Ended December 31,	***2007***	*2006*	*2005*
Operating revenue	**$16,249**	$15,546	$13,545
Operating expenses:			
Salaries, wages, and employee benefits	**4,534**	4,525	4,310
Fuel and utilities	**3,164**	3,012	2,562
Equipment and other rents	**1,420**	1,452	1,400
Depreciation	**1,321**	1,237	1,173
Materials and supplies	**714**	691	546
Casualty costs	**318**	407	408
Purchased services and other costs	**1,411**	1,342	1,354
Total operating expenses	**12,882**	12,666	11,753
Operating income	**3,367**	2,880	1,792
Other income	**71**	93	137
Interest expense	**(447)**	(489)	(492)
Income before income taxes	**2,991**	2,484	1,437
Income taxes	**(1,143)**	(914)	(401)
Net income	**$ 1,848**	$ 1,570	$ 1,036

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions of Dollars, as of December 31,	***2007***	*2006*
Assets		
Current assets:		
Cash and cash equivalents	**$ 256**	$ 400
Accounts receivable, net	**604**	649
Materials and supplies	**453**	395
Current deferred income taxes	**393**	320
Other current assets	**261**	179
Total current assets	**1,967**	1,943
Investments:		
Investments in and advances to affiliated companies	**912**	865
Other investments	**11**	12
Total investments	**923**	877
Properties:		
Road	**37,661**	35,634
Equipment	**7,818**	7,637
Other	**158**	161
Total cost	**45,637**	43,432
Accumulated depreciation	**(11,489)**	(10,569)
Net properties	**34,148**	32,863
Other assets	**314**	317
Total assets	**$37,352**	$36,000
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable	**$ 729**	$ 677
Accrued wages and vacation	**391**	409
Accrued casualty costs	**351**	387
Income and other taxes	**507**	298
Third-party debt due within one year	**139**	136
Equipment rents payable	**103**	108
Other current liabilities	**596**	621
Total current liabilities	**2,816**	2,636
Intercompany borrowings from UPC	**4,415**	4,877
Third-party debt due after one year	**1,506**	1,474
Deferred income taxes	**9,965**	9,625
Accrued casualty costs	**799**	868
Retiree benefits obligation	**462**	504
Other long-term liabilities	**601**	706
Mandatorily redeemable preference shares	**6**	9
Commitments and contingencies (note 11)		
Total liabilities	**20,570**	20,699
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	**12,074**	10,661
Accumulated other comprehensive loss	**(74)**	(142)
Total common shareholders' equity	**16,782**	15,301
Total liabilities and common shareholders' equity	**$37,352**	$36,000

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions of Dollars, for the Years Ended December 31,	***2007***	*2006*	*2005*
Operating Activities			
Net income	**$ 1,848**	$ 1,570	$ 1,036
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**1,321**	1,237	1,173
Deferred income taxes and unrecognized tax benefits	**323**	199	47
Stock-based compensation expense	**32**	23	10
Net gain from asset sales	**(47)**	(72)	(135)
Other operating activities, net	**(364)**	(191)	(40)
Changes in current assets and liabilities, net	**82**	(50)	186
Cash provided by operating activities	**3,195**	2,716	2,277
Investing Activities			
Capital investments	**(2,495)**	(2,241)	(2,168)
Proceeds from asset sales	**117**	124	185
Other investing activities	**(54)**	68	(62)
Cash used in investing activities	**(2,432)**	(2,049)	(2,045)
Financing Activities			
Dividends paid to UPC	**(400)**	(323)	(314)
Debt repaid	**(142)**	(148)	(145)
Intercompany (payments) borrowings, net	**(462)**	(205)	394
Other financing activities	**97**	6	-
Cash used in financing activities	**(907)**	(670)	(65)
Net change in cash and cash equivalents	**(144)**	(3)	167
Cash and cash equivalents at beginning of year	**400**	403	236
Cash and cash equivalents at end of year	**$ 256**	$ 400	$ 403
Changes in Current Assets and Liabilities, Net of Acquisitions			
Accounts receivable, net	**$ 45**	$ 17	$ (134)
Materials and supplies	**(58)**	(64)	(22)
Other current assets	**(82)**	(35)	39
Accounts, wages, and vacation payable	**34**	(101)	226
Other current liabilities	**143**	133	77
Total	**$ 82**	$ (50)	$ 186
Supplemental Cash Flow Information			
Non-cash activity:			
Capital investments accrued but not yet paid	**$ 126**	$ 106	$ 103
Capital lease financings	**82**	16	-
Cash paid during the year for:			
Interest, net of amounts capitalized	**$ (446)**	$ (475)	$ (502)
Income taxes, net of refunds	**(866)**	(618)	(310)

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions of Dollars *Thousands of Shares*	*Common Shares*	*Class A Shares*	*Common Shares*	*Class A Stock*	*Paid-in-Surplus*	*Retained Earnings*	*Accumulated Other Comprehensive Income/(Loss) (note 13)*	*Total*
Balance at January 1, 2005	4,465	388	$-	$-	$4,782	$8,692	$(237)	$13,237
Comprehensive income:								
Net income			-	-	-	1,036	-	1,036
Other comp. income			-	-	-	-	7	7
Total comp. income (note 13)			-	-	-	1,036	7	1,043
Dividends declared	-	-	-	-	-	(314)	-	(314)
Balance at December 31, 2005	4,465	388	$-	$-	$4,782	$9,414	$(230)	$13,966
Comprehensive income:								
Net income			-	-	-	1,570	-	1,570
Other comp. income			-	-	-	-	167	167
Total comp. income (note 13)			-	-	-	1,570	167	1,737
FAS 158 adoption (note 8)			-	-	-	-	(79)	(79)
Dividends declared	-	-	-	-	-	(323)	-	(323)
Balance at December 31, 2006	4,465	388	$-	$-	$4,782	$10,661	$(142)	$15,301
Cumulative effect of adoption of FIN 48 (note 5)	-	-	-	-	-	(35)	-	(35)
Balance at January 1, 2007	4,465	388	$-	$-	$4,782	$10,626	$(142)	$15,266
Comprehensive income:								
Net income			-	-	-	1,848	-	1,848
Other comp. income			-	-	-	-	68	68
Total comp. income (note 13)			-	-	-	1,848	68	1,916
Dividends declared	-	-	-	-	-	(400)	-	(400)
Balance at December 31, 2007	4,465	388	$-	$-	$4,782	**$12,074**	**$ (74)**	**$16,782**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Union Pacific Railroad Company and Consolidated Subsidiary Companies

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

1. Significant Accounting Policies

Principles of Consolidation – The Consolidated Financial Statements include the accounts of Union Pacific Railroad Company and all of its subsidiaries. Investments in affiliated companies (20% to 50% owned) are accounted for using the equity method of accounting. All significant intercompany transactions are eliminated. The Company evaluates its less than majority-owned investments for consolidation pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46(R)). We currently have no less than majority-owned investments that require consolidation under FIN 46(R).

Cash and Cash Equivalents – Cash equivalents consist of investments with original maturities of three months or less.

Materials and Supplies – Materials and supplies are carried at the lower of average cost or market.

Property and Depreciation – Properties are carried at cost. Provisions for depreciation are computed principally on the straight-line method based on estimated service lives of depreciable property. The cost (net of salvage) of depreciable rail property retired or replaced in the ordinary course of business is charged to accumulated depreciation, and no gain or loss is recognized. A gain or loss is recognized in other income for all other property upon disposition because the gain or loss is not part of rail operations. The cost of purchased and internally developed software is capitalized and amortized based on estimated service lives of the software.

Impairment of Long-lived Assets – We review long-lived assets, including identifiable intangibles, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the long-lived assets, the carrying value is reduced to the estimated fair value as measured by the discounted cash flows.

Revenue Recognition – We recognize commodity revenue on a percentage-of-completion basis as freight moves from origin to destination. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred. Other revenue is recognized as service is performed or contractual obligations are met. Customer incentives, which are primarily provided for shipping a specified cumulative volume or shipping to/from specific locations, are recorded as a reduction to operating revenue based on actual or projected future customer shipments.

Translation of Foreign Currency – Our portion of the assets and liabilities related to foreign investments are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the average rates of exchange prevailing during the year. Unrealized adjustments are reflected within common shareholders' equity as accumulated other comprehensive income or loss.

Financial Instruments – The carrying value of our non-derivative financial instruments approximates fair value. The fair value of financial instruments is generally determined by reference to market values as quoted by recognized dealers or developed based upon the present value of expected future cash flows.

We periodically use derivative financial instruments, for other than trading purposes, to manage risk related to changes in fuel prices and interest rates.

Stock-Based Compensation – We participate in the Corporation's stock-based 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". The Corporation issues treasury shares to cover option exercises and stock unit vestings, while new shares are issued when retention shares vest.

We adopted FASB Statement No. 123(R), *Share-Based Payment* (FAS 123(R)), on January 1, 2006. FAS 123(R) requires us to measure and recognize compensation expense for all stock-based awards made to employees, including stock options. Compensation expense is based on the calculated fair value of the awards as measured at the grant date and is expensed ratably over the service period of the awards (generally the vesting period). The fair value of retention awards is the closing stock price on the date of grant, while the fair value of stock options is determined by using the Black-Scholes option pricing model. We elected to use the modified prospective transition method as permitted by FAS 123(R) and did not restate financial results for prior periods. We did not make an adjustment for the cumulative effect of estimated forfeitures, as the impact was not material.

As a result of the adoption of FAS 123(R), we recognized expense for stock options in 2007 and 2006, in addition to retention awards, which were expensed prior to 2006. Information regarding stock-based compensation appears in the table below:

Millions of Dollars	***2007***	*2006*
Stock-based compensation, before tax:		
Stock options	**$15**	$ 9
Retention awards	**17**	14
Total stock-based compensation, before tax	**$32**	$23

Prior to the adoption of FAS 123(R), we applied the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. No stock-based employee compensation expense related to stock option grants was reflected in net income, as all options granted under those plans had a grant price equal to the market value of our common stock on the date of grant. Stock-based compensation expense related to retention shares, stock units, and other incentive plans was reflected in net income.

The following table details the effect on net income had compensation expense for all of our stock-based awards, including stock options, been recorded in the year ended December 31, 2005 based on the fair value method under FASB Statement No. 123, *Accounting for Stock-Based Compensation.*

Pro Forma Stock-Based Compensation Expense *Millions of Dollars*	*2005*
Net income, as reported	$1,036
Stock-based employee compensation expense, reported in net income, net of tax	6
Total stock-based employee compensation expense determined under fair value–based method for all awards, net of tax [a]	(30)
Pro forma net income	$1,012

[a] Stock options for executives granted in 2003 and 2002 included a reload feature. This reload feature allowed executives to exercise their options using shares of Union Pacific Corporation common stock that they already owned and obtain a new grant of options in the amount of the shares used for exercise plus any shares withheld for tax purposes. The reload feature of these option grants could only be exercised if the price of UPC's common stock increased at least 20% from the price at the time of the reload grant. During the year ended December 31, 2005, reload option grants represented $12 million of the pro forma expense noted above. There were no reload option grants during 2007 and 2006 as stock options exercised after January 1, 2006 are not eligible for the reload feature.

Use of Estimates – Our Consolidated Financial Statements include estimates and assumptions regarding certain assets, liabilities, revenue, and expenses and the disclosure of certain contingent assets and liabilities. Actual future results may differ from such estimates.

Income Taxes – As required under FASB Statement No. 109, *Accounting for Income Taxes*, we account for income taxes by recording taxes payable or refundable for the current year and deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. These expected future tax consequences are measured based on provisions of tax law as currently enacted; the effects of future changes in tax laws are not anticipated. Future tax law changes, such as a change in the corporate tax rate, could have a material impact on our financial condition or results of operations.

When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that may not be realized. In determining whether a valuation allowance is appropriate, we consider whether it is more likely than not that all or some portion of our deferred tax assets will not be realized, based on management's judgments regarding the best available evidence about future events.

When we have claimed tax benefits that may be challenged by a tax authority, these uncertain tax positions are accounted for under FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). We adopted FIN 48 beginning January 1, 2007. Prior to 2007, income tax contingencies were accounted for under FASB Statement No. 5, *Accounting for Contingencies.*

Under FIN 48, we recognize tax benefits only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in our tax returns that do not meet these recognition and measurement criteria. For additional information on the adoption of FIN 48, see note 5 to the Consolidated Financial Statements.

Pension and Postretirement Benefits – We incur certain employment-related expenses associated with pensions and postretirement health benefits. In order to measure the expense associated with these benefits, we must make various assumptions including discount rates used to value certain liabilities, expected return on plan assets used to fund these expenses, salary increases, employee turnover rates, anticipated mortality rates, and expected future healthcare costs. The assumptions used by us are based on our historical experience as well as current facts and circumstances. We use third-party actuaries to assist us in properly measuring the expense and liability associated with these benefits.

Personal Injury – The cost of injuries to employees and others on our property 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 properly measuring the expense and liability. Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Legal fees and incidental costs are expensed as incurred.

Environmental – When environmental issues have been identified with respect to property currently or formerly owned, leased, or otherwise used in the conduct of our business, we and our consultants perform environmental assessments on such 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. Legal fees and incidental costs are expensed as incurred.

Asbestos – We estimate a liability for asserted and unasserted asbestos-related claims based on an assessment of the number and value of those claims. We use an external consulting firm to assist us in properly measuring the expense and liability. Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Legal fees and incidental costs are expensed as incurred.

2. Operations and Segmentation

We are a Class I railroad that operates in the United States. We have 32,205 route miles, linking Pacific Coast and Gulf Coast ports with the Midwest and eastern United States gateways and providing several corridors to key Mexican gateways. We serve the western two-thirds of the country and maintain coordinated schedules with other rail carriers for the handling of freight to and from the Atlantic Coast, the Pacific Coast, the Southeast, the Southwest, Canada, and Mexico. Export and import traffic is moved through Gulf Coast and Pacific Coast ports and across the Mexican and Canadian borders.

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 revenue by commodity group:

Millions of Dollars	***2007***	*2006*	*2005*
Agricultural	**$ 2,597**	$ 2,395	$ 1,971
Automotive	**1,469**	1,438	1,273
Chemicals	**2,293**	2,098	1,848
Energy	**3,136**	2,953	2,578
Industrial Products	**3,110**	3,168	2,814
Intermodal	**2,911**	2,810	2,473
Total commodity revenue	**$15,516**	$14,862	$12,957
Other revenue	**733**	684	588
Total operating revenue	**$16,249**	$15,546	$13,545

3. Transactions with Affiliates

At December 31, 2007 and 2006, we had $849 million and $693 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 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. The intercompany borrowings accrue interest at an annual rate of 7.5%, which may be adjusted from time to time, and are payable on demand. We do not expect to be required by UPC to pay back the intercompany borrowings within the next 12 months. There are no restrictions on the amount we are able to borrow from UPC. 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 $56 million, $69 million, and $54 million for the years ended December 31, 2007, 2006, and 2005, respectively.

4. 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 December 31, 2007 and 2006, 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 December 31, 2007 and 2006, we had reductions of $4 million and $5 million, respectively, recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of December 31, 2007 and 2006, we had no interest rate cash flow hedges outstanding.

Fuel Swaps – Two fuel basis swaps cover a total of 151 million gallons of diesel fuel for the period August 2006 through July 2008. These commodity basis swaps require us to make payments to, or receive payments from, the counterparty based on the difference between certain price indices. Changes in the fair value of these swaps are reflected in fuel expense. We reported a derivative asset of approximately $1 million and $2 million at December 31, 2007 and 2006, respectively, which represents the fair value of the swaps. The swaps increased fuel expense for 2007 by $1 million and reduced fuel expense for 2006 by $3 million. The recognition of the swaps in fuel expense included monthly net settlements with the counterparty and the change in fair value.

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 December 31, 2007 and 2006, the fair value of total debt exceeded the carrying value by approximately $39 million and $103 million, respectively. At December 31, 2007 and 2006, approximately $164 million and $165 million, respectively, of fixed-rate debt securities contained call provisions that allowed us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par.

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 $600 million at both December 31, 2007 and 2006. The value of the outstanding undivided interest held by investors under the facility was $600 million at both December 31, 2007 and 2006, respectively. The value of the outstanding undivided interest held by investors is not included in our Consolidated Financial Statements. The value of the undivided interest held by investors was supported by $1,071 million and $1,158 million of accounts receivable held by UPRI at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, the value of the interest retained by UPRI was $471 million and $558 million, respectively. This retained interest is included in accounts receivable in our 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 percentages were to increase one percentage point, the amount of eligible receivables would decrease by $6 million. Should UPC's credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

We 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 $16.1 billion and $15.5 billion during the years ended December 31, 2007 and 2006, 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 $35 million, $33 million, and $23 million for 2007, 2006, and 2005, 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 have no recourse to the assets of UPRI. In August 2007, the sale of receivables program was renewed for an additional 364-day period without any significant changes in terms.

5. Income Taxes

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

Components of income tax expense/(benefit) were as follows for the years ended December 31:

Millions of Dollars	***2007***	*2006*	*2005*
Current	**$ 820**	$ 715	$ 354
Deferred	**349**	199	47
Unrecognized tax benefits	**(26)**	N/A	N/A
Total income tax expense	**$1,143**	$ 914	$ 401

For the years ended December 31, reconciliation between statutory and effective tax rates is as follows:

Tax Rate Percentages	***2007***	*2006*	*2005*
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State statutory rates, net of federal benefits	**2.9**	2.9	2.9
Deferred tax adjustments	**1.0**	(0.5)	(8.5)
Tax credits	**(0.6)**	(1.0)	(1.2)
Other	**(0.1)**	0.4	(0.3)
Effective tax rate	**38.2%**	36.8%	27.9%

As reported in our Forms 10-Q for the quarters ended June 30, 2005 and September 30, 2005, the final settlements of income tax examinations for pre-1995 tax years, along with the IRS Examination Reports for tax years 1995 through 2002, among other things, were considered in a re-evaluation of our estimated deferred tax assets and liabilities. This resulted in a reduction of deferred tax liabilities and income tax expense of $123 million in the third quarter of 2005.

Deferred income tax liabilities/(assets) were comprised of the following at December 31:

Millions of Dollars	***2007***	*2006*
Net current deferred income tax asset	**$ (393)**	$ (320)
Property	**$ 9,473**	$9,355
State taxes, net of federal benefits	**683**	608
Other	**(191)**	(338)
Net long-term deferred income tax liability	**$9,965**	$9,625
Net deferred income tax liability	**$ 9,572**	$9,305

In June 2006, the FASB issued FIN 48. We adopted FIN 48 on January 1, 2007. Under FIN 48, tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. Unrecognized tax benefits are tax benefits claimed in our tax returns that do not meet these recognition and measurement standards.

At adoption of FIN 48, the Corporation had total liabilities for unrecognized tax benefits of $227 million pre-tax, or $173 million after including tax benefits for the deductibility of interest and state taxes. Of this amount, $7 million was recorded as a decrease to beginning retained earnings for the cumulative effect of adopting FIN 48. The remaining $166 million had been previously accrued under either FASB Statement No. 5, *Accounting for Contingencies*, or FASB Statement No. 109, *Accounting for Income Taxes*. The entire $173 million was classified as non-current in the Corporation's Condensed Consolidated Statement of Financial Position and includes unrecognized tax benefits generated by the Corporation and its subsidiaries other than us.

As part of the adoption of FIN 48, we recorded a $35 million decrease to beginning retained earnings. After adoption, we had total liabilities of $459 million pre-tax, or $357 million after tax that are payable to the Corporation for our estimated allocation of unrecognized tax benefits included under FIN 48. The entire $357 million was classified as non-current in the Consolidated Statement of Financial Position.

A reconciliation of changes in pre-tax unrecognized tax benefits liabilities/(assets) from the beginning to the end of the reporting period is as follows:

Millions of Dollars	***2007***
Unrecognized Tax Benefits at adoption on January 1, 2007	**$459**
Increases for positions taken in current year	**15**
Increases for positions taken in prior years	**6**
Decreases for positions taken in prior years	**(45)**
Decreases for positions expected to be taken in future years	**(41)**
Settlements with taxing authorities	**(1)**
Increases (decreases) for interest and penalties	**(1)**
Other increases (decreases)	**(6)**
Unrecognized tax benefits at December 31, 2007	**$386**

Included in the $386 million balance at December 31, 2007 and the $459 million balance at adoption were $301 million and $348 million, respectively, of unrecognized tax benefits that, if recognized, would reduce our effective tax rate. The remaining unrecognized tax benefits related to tax positions for which ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Recognition of these tax benefits would reduce our effective tax rate only through a reduction of accrued interest and penalties.

We recognize interest and penalties as part of income tax expense. Total accrued pre-tax liabilities for interest and penalties were $211 million ($135 million after-tax) at December 31, 2007 and $212 million ($136 million after-tax) at adoption.

For all federal income tax years prior to 1995, the Internal Revenue Service examinations have been completed and the statute of limitations bars any additional assessments by the IRS. The Corporation has filed interest refund claims for years 1986 through 1994, which may be disputed by the IRS. The IRS has completed its examinations and issued notices of deficiency for tax years 1995 through 2004, and the Corporation is in different stages of the IRS appeals process for these years. The IRS is examining the Corporation's tax returns for tax years 2005 and 2006. In the third quarter of 2007, the Corporation believes it reached an agreement in principle with the IRS to resolve all of the issues, except interest, related to tax years 1995 through 1998, including the previously reported dispute over certain donations of property. The Corporation anticipates signing a closing agreement in 2008. Once formalized, we anticipate that this agreement will result in an immaterial reduction of income tax expense.

Upon resolution of the federal income tax examinations described above, we will report any changes to our taxable income to state and local taxing authorities in compliance with state and local requirements. Additionally, several state taxing authorities are currently examining our state income tax returns for tax years 2001 through 2005.

In the third quarter of 2007, the State of Illinois enacted new tax legislation that changed how we determine the amount of our income subject to Illinois tax. This legislation caused an increase to our deferred tax expense by $27 million in the third quarter. In addition, because the legislation reduced uncertainty about determining future income subject to Illinois tax, $41 million pre-tax ($26 million after-tax) of deferred taxes are no longer considered part of unrecognized tax benefits. In January of 2008, Illinois enacted technical corrections legislation that made additional changes in how we determine the amount of our income subject to Illinois tax. This technical corrections legislation will result in reduction of deferred tax expense of approximately $14 million in the first quarter of 2008.

We expect that the amount of unrecognized tax benefits will change significantly during the next 12 months. Of the $386 million balance at December 31, 2007, $300 million is classified as current in the Consolidated Statement of Financial Position, primarily due to the anticipated settlement for tax years 1995 through 1998 described above. It is also reasonably possible that we may resolve the interest claims for 1986 through 1994 described above, which would likely result in an immaterial change to unrecognized tax benefits.

6. Debt

Total debt as of December 31, 2007 and 2006, net of interest rate swaps designated as hedges, is summarized below:

Millions of Dollars	***2007***	*2006*
Intercompany borrowings from UPC, 7.5%	**$4,415**	$4,877
Notes and debentures, 3.0% to 5.0% due through 2054	**117**	119
Capitalized leases, 4.7% to 9.3% due through 2026	**1,219**	1,236
Equipment obligations, 6.2% to 8.1% due through 2031	**291**	232
Mortgage bonds, 4.8% due through 2030	**59**	59
Tax-exempt financings, 5.0% to 5.1% due through 2015	**32**	34
Unamortized discount	**(73)**	(70)
Total debt	**$6,060**	$6,487
Less current portion	**(139)**	(136)
Total long-term debt	**$5,921**	$6,351

Debt Maturities – The following table presents aggregate debt maturities as of December 31, 2007, excluding market value adjustments and intercompany borrowings.

Millions of Dollars	
2008	$ 139
2009	142
2010	126
2011	141
2012	85
Thereafter	1,012
Total debt	$1,645

Mortgaged Properties – Equipment with a carrying value of approximately $2.8 billion at both December 31, 2007 and 2006 serves as collateral for capital leases and other types of equipment obligations in accordance with the secured financing arrangements utilized to acquire such railroad equipment.

As a result of the merger of Missouri Pacific Railroad Company (MPRR) with and into UPRR on January 1, 1997, and pursuant to the underlying indentures for the MPRR mortgage bonds, UPRR must maintain the same value of assets after the merger in order to comply with the security requirements of the mortgage bonds. As of the merger date, the value of the MPRR assets that secured the mortgage bonds was approximately $6.0 billion. In accordance with the terms of the indentures, this collateral value must be maintained during the entire term of the mortgage bonds irrespective of the outstanding balance of such bonds.

Income-Based Securities – We have certain debt instruments which contain provisions that limit the payment of interest, require sinking fund installments, and impose certain restrictions in the event that all interest is not paid based upon available income levels. Other debt instruments contain provisions that may impose restrictions on the Company's ability to declare dividends on certain classes of capital stock (note 9).

7. Leases

We lease certain locomotives, freight cars, and other property. Future minimum lease payments for operating and capital leases with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2007 were as follows:

Millions of Dollars	*Operating Leases*	*Capital Leases*
2008	$ 636	$ 181
2009	598	179
2010	552	160
2011	520	165
2012	417	106
Later Years	3,289	1,054
Total minimum lease payments	$6,012	$1,845
Amount representing interest	N/A	(626)
Present value of minimum lease payments	N/A	$1,219

Rent expense for operating leases with terms exceeding one month was $807 million in 2007, $795 million in 2006, and $727 million in 2005. When cash rental payments are not made on a straight-line basis, we recognize variable rental expense on a straight-line basis over the lease term. Contingent rentals and sub-rentals are not significant.

8. 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.

Funded Status

We adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), at the end of 2006, which required us to separately recognize the overfunded or underfunded status of our pension and OPEB plans as an asset or liability. The funded status represents the difference between the projected benefit obligation (PBO) and the fair value of the plan assets. The PBO is the present value of benefits earned to date by plan participants, including the effect of assumed future salary increases. The PBO of the OPEB plan is equal to the accumulated benefit obligation, as the present value of the

OPEB liabilities is not affected by salary increases. Plan assets are measured at fair value. We use a December 31 measurement date for plan assets and obligations for all our retirement plans.

Changes in our PBO and plan assets are as follows for the years ended December 31:

Funded Status *Millions of Dollars*	*Pension* **2007**	*2006*	*OPEB* **2007**	*2006*
Projected Benefit Obligation				
Projected benefit obligation at beginning of year	**$2,113**	$2,065	**$ 374**	$ 476
Service cost	**34**	35	**3**	4
Interest cost	**124**	117	**20**	21
Plan amendments	**-**	-	**(10)**	(38)
Actuarial loss (gain)	**(33)**	16	**(34)**	(58)
Gross benefits paid	**(126)**	(120)	**(27)**	(31)
Projected benefit obligation at end of year	**$2,112**	$2,113	**$ 326**	$ 374
Plan Assets				
Fair value of plan assets at beginning of year	**$1,989**	$1,707	**$ -**	$ -
Actual return on plan assets	**183**	243	**-**	-
Voluntary funded pension plan contributions	**-**	150	**-**	-
Non-qualified plan benefit contributions	**12**	9	**27**	31
Gross benefits paid	**(126)**	(120)	**(27)**	(31)
Fair value of plan assets at end of year	**$2,058**	$1,989	**$ -**	$ -
Funded status at end of year	**$ (54)**	$ (124)	**$(326)**	$(374)

Amounts recognized in the statement of financial position as of December 31, 2007 and 2006 consist of:

Millions of Dollars	*Pension* **2007**	2006	*OPEB* **2007**	2006
Noncurrent assets	**$ 120**	$ 45	**$ -**	$ -
Current liabilities	**(11)**	(12)	**(27)**	(27)
Noncurrent liabilities	**(163)**	(157)	**(299)**	(347)
Net amounts recognized at end of year	**$ (54)**	$(124)	**$(326)**	$(374)

Pre-tax amounts recognized in accumulated other comprehensive income/(loss) as of December 31, 2007 consist of:

Millions of Dollars	*Pension*	*OPEB*	*Total*
Prior service (cost)/credit	$ (18)	$137	$ 119
Net actuarial loss	(158)	(85)	(243)
Total	$(176)	$ 52	$(124)

Pre-tax amounts recognized in accumulated other comprehensive income/(loss) as of December 31, 2006 consist of:

Millions of Dollars	*Pension*	*OPEB*	*Total*
Prior service (cost)/credit	$ (24)	$ 161	$ 137
Net actuarial loss	(249)	(126)	(375)
Total	$(273)	$ 35	$(238)

Other pre-tax changes recognized in other comprehensive income during 2007 were as follows:

Millions of Dollars	*Pension*	*OPEB*	*Total*
Prior service credit arising during the year	$ -	$(10)	$ (10)
Net actuarial (gain)/loss arising during the year	(73)	(32)	(105)
Amortization of prior service (cost)/credit	(6)	33	27
Amortization of actuarial gain/(loss)	(18)	(8)	(26)
Total	$(97)	$(17)	$(114)

Amounts included in accumulated other comprehensive income expected to be amortized into net periodic cost (benefit) during 2008:

Millions of Dollars	*Pension*	*OPEB*	*Total*
Prior service cost (credit)	$ 6	$(33)	$(27)
Net actuarial loss	5	6	11
Total	$11	$(27)	$(16)

Underfunded Accumulated Benefit Obligation – The accumulated benefit obligation (ABO) is the present value of benefits earned to date, assuming no future salary growth. The underfunded accumulated benefit obligation represents the difference between the ABO and the fair value of plan assets. At December 31, 2007, the only pension plan that was underfunded was our non-qualified (supplemental) plan, which is not funded by design.

The non-qualified (supplemental) plan is funded with cash from operations as benefits are paid to plan participants. Each of our qualified plans was fully funded at December 31, 2007. The PBO, ABO, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of the fair value of the plan assets were as follows for the years ended December 31:

Underfunded Accumulated Benefit Obligation *Millions of Dollars*	***2007***	*2006*
Projected benefit obligation	**$(175)**	$(169)
Accumulated benefit obligation	**$(172)**	$(168)
Fair value of plan assets	-	-
Underfunded accumulated benefit obligation	**$(172)**	$(168)

The ABO for all defined benefit pension plans was $2.0 billion and $2.1 billion at December 31, 2007 and 2006, respectively.

Assumptions – The weighted-average actuarial assumptions used to determine benefit obligations at December 31:

Percentages	*Pension*			*OPEB*		
	2007	*2006*	*2005*	***2007***	*2006*	*2005*
Discount rate	**6.50%**	6.00%	5.75%	**6.50%**	6.00%	5.75%
Salary increase	**3.50**	3.00	2.75	**N/A**	N/A	N/A

The following table presents assumed health care cost trend rates used to determine benefit obligations and OPEB expense:

Percentages	***2007***	*2006*	*2005*
Assumed health care cost trend rate for next year	**9.0%**	8.0%	9.0%
Rate to which health care cost trend rate is expected to decline and remain	**5.0%**	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	**2011**	2010	2010

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 years ended December 31:

Millions of Dollars	*Pension*			*OPEB*		
	2007	*2006*	*2005*	***2007***	*2006*	*2005*
Net Periodic Benefit Cost:						
Service cost	**$ 34**	$ 35	$ 28	**$ 3**	$ 4	$ 4
Interest cost	**124**	117	115	**20**	21	25
Expected return on plan assets	**(144)**	(134)	(134)	**-**	-	-
Amortization of:						
Prior service cost/(credit)	**6**	7	7	**(33)**	(33)	(30)
Actuarial loss	**18**	21	5	**8**	13	14
Net periodic benefit cost/(benefit)	**$ 38**	$ 46	$ 21	**$ (2)**	$ 5	$ 13

Assumptions – The weighted-average actuarial assumptions used to determine expense were as follows for the years ended December 31:

	Pension			*OPEB*		
Percentages	***2007***	*2006*	*2005*	***2007***	*2006*	*2005*
Discount rate	**6.00%**	5.75%	6.00%	**6.00%**	5.75%	6.00%
Expected return on plan assets	**8.00**	8.00	8.00	**N/A**	N/A	N/A
Salary increase	**3.00**	2.75	3.00	**N/A**	N/A	N/A

The discount rate is based on a hypothetical portfolio of high quality corporate bonds with cash flows matching our plans' expected benefit payments. The expected return on plan assets is based on our asset allocation mix and our historical return, taking into account current and expected market conditions. The actual return on pension plan assets, net of fees, was approximately 9% in 2007, 14% in 2006, and 7% in 2005. Our historical annualized ten-year rate of return on plan assets is approximately 8%.

Assumed healthcare cost trend rates have a significant effect on the expense and liabilities reported for healthcare plans. The assumed healthcare cost trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed healthcare cost trend rates would have the following effects on OPEB:

Millions of Dollars	*One % pt. Increase*	*One % pt. Decrease*
Effect on total service and interest cost components	$ 2	$ (2)
Effect on accumulated benefit obligation	25	(21)

Cash Contributions

The following table details our cash contributions for the years ended December 31, 2007 and 2006, and the expected contributions for 2008:

	Pension		
Millions of Dollars	*Qualified*	*Non-qualified*	*OPEB*
2006	$150	$ 9	$31
2007	-	12	27
2008	-	12	27

The policy with respect to funding the qualified plans is to fund at least the minimum required by the Pension Protection Act of 2006 and not more than the maximum amount deductible for tax purposes. All contributions made to the qualified pension plans in 2006 were voluntary and were made with cash generated from operations. At December 31, 2007, our qualified pension plans were fully funded. No required contributions are expected in 2008.

The OPEB plans are not funded and are not subject to any minimum regulatory funding requirements. Benefit payments for each year represent claims paid for medical and life insurance, and we anticipate our 2008 OPEB payments will be made from cash generated from operations.

Benefit Payments

The following table details expected benefit payments for the years 2008 though 2017:

Millions of Dollars	*Pension*	*OPEB*
2008	$ 125	$ 27
2009	128	28
2010	131	29
2011	137	29
2012	142	29
Years 2013 – 2017	795	139

Asset Allocation Strategy

The pension plan asset allocation at December 31, 2007 and 2006, and target allocation for 2008, are as follows:

	Target Allocation 2008	*Percentage of Plan Assets December 31, 2007*	*2006*
Equity securities	60% to 70%	**68%**	70%
Debt securities	20% to 30%	**23**	26
Real estate	2% to 8%	**4**	2
Commodities	4% to 6%	**5**	2
Total		**100%**	100%

The investment strategy for pension plan assets is to maintain a broadly diversified portfolio designed to achieve our target of an average long-term rate of return of 8%. While we believe we can achieve a long-term average rate of return of 8%, we cannot be certain that the portfolio will perform to our expectations. Assets are strategically allocated among equity, debt, and other instruments in order to achieve a diversification level that mitigates wide swings in investment returns. Asset allocation target ranges for equity, debt, and other portfolios are evaluated at least every three years with the assistance of an independent external consulting firm. Actual asset allocations are monitored monthly, and rebalancing actions are executed at least quarterly, if needed.

Plan assets are valued at fair value. Investments in securities traded on national security exchanges are valued at their closing market prices on the valuation date; where no sale was made on the valuation date, the security is valued at its bid price. Securities traded in the over-the-counter market are valued at their last sale or bid price. Investments in mortgage-backed securities are carried at estimated fair value based on the characteristics of the underlying mortgages. Certain short-term investments are carried at cost, which approximates fair value. Venture capital funds, where no quoted market prices are available, are valued at their estimated fair values as determined by the investment manager. Investments in limited partnerships are valued at estimated fair value based on their proportionate share of the partnerships' fair value. The partnerships invest primarily in readily marketable securities.

The majority of the plan's assets are invested in equity securities, because equity portfolios have historically provided higher returns than debt and other asset classes over extended time horizons, and are expected to do so in the future. Correspondingly, equity investments also entail greater risks than other investments. The risk of loss in the plan's equity portfolio is mitigated by investing in a broad range of equity types. Equity diversification includes large-capitalization and small-capitalization companies, growth-oriented and value-oriented investments, and U.S. and non-U.S. securities.

Equity risks are further balanced by investing a significant portion of the plan's assets in high quality debt securities. The average quality rating of the debt portfolio exceeded AA as of December 31, 2007 and 2006. The debt portfolio is also broadly diversified and invested primarily in U.S. Treasury, mortgage, and corporate securities with an intermediate average maturity. The weighted-average maturity of the debt portfolio was 6.4 years at both December 31, 2007 and 2006, respectively.

The investment of pension plan assets in the Corporation's securities is specifically prohibited for both the equity and debt portfolios, other than through index fund holdings.

Other Retirement Programs

Thrift Plan – The Corporation provides a defined contribution plan (thrift plan) to eligible non-union employees and makes matching contributions to the thrift plan. We match 50 cents for each dollar contributed by employees up to the first six percent of compensation contributed. The thrift plan contributions were $14 million in 2007, $13 million in 2006, and $12 million in 2005.

Railroad Retirement System – Our employees are covered by the Railroad Retirement System (the System). Contributions made to the System are expensed as incurred and amounted to approximately $616 million in 2007, $615 million in 2006, and $595 million in 2005.

Collective Bargaining Agreements – Under collective bargaining agreements, we provide certain postretirement healthcare and life insurance benefits for eligible union employees. Premiums under the plans are expensed as incurred and amounted to $40 million in both 2007 and 2006, and $41 million in 2005.

9. Capital Stock and Dividend Restrictions

Our Board of Directors has restricted the availability of retained earnings for payment of dividends by $131 million. This represents (a) the amount by which the estimated fair value of our investment in certain subsidiaries, as determined by our Board of Directors, exceeded the net book value of such investment, which was transferred to the Corporation by means of a dividend in June 1971 ($110 million) and (b) the amount by which the fair market value exceeded the book value of certain investment securities which were transferred to the Corporation by means of a dividend in November 1972 ($21 million).

Our capital structure consists of Class A Stock, Common Stock, and Mandatorily Redeemable Preference Shares (Series A). The Class A Stock is entitled to a cash dividend whenever a dividend is declared on the Common Stock, in an amount which equals 8 percent of the sum of the dividends on both the Class A Stock and the Common Stock. All of our Common Stock and our Class A Stock, which constitutes all of the voting capital stock, is owned by the Corporation or a wholly-owned subsidiary of the Corporation, and all of the Mandatorily Redeemable Preference Shares, which are non-voting stock, are owned by the Federal Railroad Administration. Accordingly, there is no market for our capital stock.

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.

10. Stock Options and Other Stock Plans

We participate in the Corporation's stock incentive plans. There are 337,145 options outstanding under the 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation (1993 Plan). The Corporation no longer grants options or awards of retention shares and units under this plan.

The UP Shares Stock Option Plan of Union Pacific Corporation (UP Shares Plan) was approved by UPC's Board of Directors on April 30, 1998. The UP Shares Plan reserved 12,000,000 shares of UPC's common stock for issuance. The UP Shares Plan was a broad-based option program that granted options to purchase 200 shares of UPC's common stock at $55.00 per share to eligible active employees on April 30, 1998. All options granted were non-qualified options that became exercisable on May 1, 2001, and remain exercisable until April 30, 2008. If an optionee's employment terminates for any reason, the option remains exercisable for a period of one year after the date of termination, but no option is exercisable after April 30, 2008. No further options may be granted under the UP Shares Plan. As of December 31, 2007, there were 429,689 options outstanding for our participants under the UP Shares Plan.

The Union Pacific Corporation 2001 Stock Incentive Plan (2001 Plan) was approved by UPC's shareholders in April 2001. The 2001 Plan reserved 12,000,000 shares of UPC's common stock for issuance to eligible employees of the Corporation and its subsidiaries in the form of non-qualified options, incentive stock options, retention shares, stock units, and incentive bonus awards. As of December 31, 2007, 1,489,302 options and 84,750 retention shares and stock units were outstanding under the 2001 Plan. The Coporation no longer grants any stock options or other stock or unit awards under this plan.

The Union Pacific Corporation 2004 Stock Incentive Plan (2004 Plan) was approved by shareholders in April 2004. The 2004 Plan reserved 21,000,000 shares of the Corporation's common stock for issuance, plus any shares subject to awards made under the 2001 Plan and the 1993 Plan that were outstanding on April 16, 2004, and became available for regrant pursuant to the terms of the 2004 Plan. Under the 2004 Plan, non-qualified options, stock appreciation rights, retention shares, stock units, and incentive bonus awards may be granted to eligible employees of the Corporation and its subsidiaries. As of December 31, 2007, 2,165,470 options and 631,449 retention shares and stock units were outstanding for our participants under the 2004 Plan.

Pursuant to the above plans, 18,952,314; 19,544,245; and 20,695,817 shares of the Corporation's common stock were authorized and available for grant at December 31, 2007, 2006, and 2005, respectively.

Stock Options – We estimate the fair value of our stock option awards using the Black-Scholes option pricing model. Groups of employees that have similar historical and expected exercise behavior are considered separately for valuation purposes. The table below shows the annual weighted-average assumptions used for valuation purposes:

Weighted-Average Assumptions	***2007***	*2006*	*2005*
Risk-free interest rate	**4.9%**	4.5%	3.8%
Dividend yield	**1.4%**	1.4%	1.9%
Expected life (years)	**4.6**	5.7	4.8
Volatility	**20.9%**	24.7%	20.6%
Weighted-average grant-date fair value of options granted	**$22.39**	$23.94	$12.92

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 our stock price over the expected life of the option.

A summary of stock option activity during 2007 is presented below:

	Shares (thous.)	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Term*	*Aggregate Intrinsic Value (millions)*
Outstanding at January 1, 2007	6,277	$64.17	5.6 yrs.	$175
Granted	802	96.93	N/A	N/A
Exercised	(2,621)	58.50	N/A	N/A
Forfeited or expired	(36)	77.47	N/A	N/A
Outstanding at December 31, 2007	4,422	$73.37	5.9 yrs.	$231
Vested or expected to vest at December 31, 2007	4,377	$73.18	5.9 yrs.	$230
Options exercisable at December 31, 2007	2,926	$63.96	4.5 yrs.	$180

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 December 31, 2007 are subject to performance or market-based vesting conditions.

At December 31, 2007, there was $17 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.2 years. Additional information regarding stock option exercises appears in the table below:

Millions of Dollars	***2007***	*2006*	*2005*
Intrinsic value of stock options exercised	**$152**	$97	$102
UPC tax benefit realized from option exercises	**56**	35	38
Aggregate grant-date fair value of stock options vested [a]	**6**	18	39

[a] Stock options for executives granted in 2003 and 2002 included a reload feature. This reload feature allowed executives to exercise their options using shares of Union Pacific Corporation common stock that they already owned and obtain a new grant of options with immediate vesting in the amount of the shares used for exercise plus any shares withheld for tax purposes. The reload feature of these option grants could only be exercised if the price of UPC's common stock increased at least 20% from the price at the time of the reload grant. During the year ended December 31, 2005, reload option grants represented $19 million of the aggregate grant-date fair value of stock options vested. There were no reload option grants during 2007 and 2006 as stock options exercised after January 1, 2006 are not eligible for the reload feature.

Retention Awards – The fair value of retention awards is based on the closing price of the stock at the grant date. Dividend equivalents are paid to participants during the vesting periods.

Changes in our retention awards during 2007 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2007	603	$72.31
Granted	268	97.02
Vested	(141)	60.62
Forfeited	(14)	83.13
Nonvested at December 31, 2007	716	$83.65

Retention awards are granted at no cost to the employee and vest over periods lasting up to four years. At December 31, 2007, there was $33 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 January 2007, UPC's Board of Directors approved performance stock unit grants. Other than raising the performance targets, the basic terms of these performance stock units are identical to those granted in January 2006, including annual return on invested capital (ROIC) as the performance measure. 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 will 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 are as follows:

	2007
Dividend per share per quarter	$0.35
Risk-free interest rate at date of grant	4.9%

Changes in our performance retention awards during 2007 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2007	51	$86.05
Granted	106	93.72
Vested	-	-
Forfeited	-	-
Nonvested at December 31, 2007	157	$91.24

At December 31, 2007, there was $8 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.7 years. A portion of this expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

11. 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 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, on a semi-annual basis. Compensation for work-related accidents is governed by the Federal Employers' Liability Act (FELA). Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements.

As a result of improvements in our safety experience, lower estimated ultimate settlement costs, and the completion of actuarial studies, we reduced personal injury expense by approximately $80 million in 2007. These adjustments were partially offset by adverse development with respect to one claim. Our personal injury liability activity was as follows:

Millions of Dollars	***2007***	*2006*	*2005*
Beginning balance	**$ 629**	$ 614	$ 637
Accruals	**165**	243	245
Payments	**(202)**	(228)	(268)
Ending balance at December 31	**$ 592**	$ 629	$ 614
Current portion, ending balance at December 31	**$ 203**	$ 232	$ 272

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. 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 $590 million to $638 million. We believe that the $592 million liability recorded at December 31, 2007, is the best estimate of the present value of the future settlement costs of personal injury claims.

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.

During 2004, we engaged a third party with extensive experience in estimating resolution costs for asbestos-related claims to assist us in assessing the number and value of these unasserted claims through 2034, based on our average claims experience over a multi-year period. During 2007, we updated our potential liability to include actual claim experience since 2004. As a result, we decreased our liability by $20 million in 2007 for asbestos-related claims. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

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

Our asbestos-related liability activity was as follows:

Millions of Dollars	***2007***	*2006*	*2005*
Beginning balance	**$302**	$311	$324
Accruals/(credits)	**(20)**	-	-
Payments	**(17)**	(9)	(13)
Ending balance at December 31	**$265**	$302	$311
Current portion, ending balance at December 31	**$ 11**	$ 13	$ 16

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 13% of the recorded liability related to asserted claims, and approximately 87% related to unasserted claims. These claims are expected to be paid out over the next 27 years. We will continue to review actual experience and adjust our estimate as warranted.

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and, as a result of the 2004 assessment, we increased our receivable for insurance recoveries related to asbestos during 2004. In conjunction with the liability update performed in 2007, we also reassessed estimated insurance recoveries. We have recognized an asset for estimated insurance recoveries at December 31, 2007 and 2006.

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

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have 339 projects with which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 41 projects that are the subject of actions taken by the U.S. government, 22 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified projects; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities with each project.

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 December 31, 2007, approximately 13% of our environmental liability was discounted at 4.15%, while approximately 14% of our environmental liability was discounted at 5.34% at December 31, 2006.

Our environmental liability activity was as follows:

Millions of Dollars	***2007***	*2006*	*2005*
Beginning balance	**$210**	$213	$201
Accruals	**41**	39	45
Payments	**(42)**	(42)	(33)
Ending balance at December 31	**$209**	$210	$213
Current portion, ending balance at December 31	**$ 63**	$ 54	$ 46

The environmental liability includes costs for remediation and restoration of sites, as well as for ongoing monitoring costs, but excludes any anticipated recoveries from third parties. Cost estimates are based on information available for each project, financial viability of other potentially responsible parties, and existing technology, laws, and regulations. We believe that we have adequately accrued for our ultimate share of costs at sites subject to joint and several liability. However, the ultimate liability for remediation is difficult to determine because of the number of potentially responsible parties involved, 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. We do not expect current obligations to have a material adverse effect on our results of operations or financial condition.

Guarantees – At December 31, 2007, we were contingently liable for $443 million in guarantees. We have recorded a liability of $5 million and $6 million for the fair value of these obligations as of December 31, 2007 and 2006, respectively. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

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

Income Taxes –As discussed in note 5, the IRS has completed its examinations and issued notices of deficiency for tax years 1995 through 2004, and the Corporation is in different stages of the IRS appeals process for these years. The IRS is examining the Corporation's tax returns for tax years 2005 and 2006. In the third quarter of 2007, the Corporation believes it reached an agreement in principle with the IRS to resolve all of the issues, except interest, related to tax years 1995 through 1998, including the previously reported dispute over certain donations of property. The Corporation anticipates signing a closing agreement in 2008. At December 31, 2007, the Corporation has recorded a current liability of $140 million for tax payments in 2008 related to federal and state income tax examinations. At December 31, 2007, we have recorded a current liability of $300 million payable to the Corporation for our anticipated allocation of these tax payments. We do not expect that the ultimate resolution of these examinations will have a material adverse effect on our Consolidated Financial Statements.

12. Other Income

Other income included the following for the years ended December 31:

Millions of Dollars	***2007***	*2006*	*2005*
Rental income	**$ 68**	$ 83	$ 59
Net gain on non-operating asset dispositions	**47**	72	135
Interest income	**13**	5	6
Sale of receivables fees	**(35)**	(33)	(23)
Non-operating environmental costs and other	**(22)**	(34)	(40)
Total	**$71**	$ 93	$137

13. Comprehensive Income/(Loss)

Comprehensive income/(loss) was as follows:

Millions of Dollars	***2007***	*2006*	*2005*
Net income	**$1,848**	$1,570	$1,036
Other comprehensive income:			
Defined benefit plans	**65**	170	1
Foreign currency translation	**2**	(4)	5
Derivatives	**1**	1	1
Total other comprehensive income/(loss) [a]	**68**	167	7
Total comprehensive income	**$1,916**	$1,737	$1,043

[a] Net of deferred taxes of $52 million, $102 million, and $5 million during 2007, 2006, and 2005, respectively.

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

Millions of Dollars	***Dec. 31, 2007***	*Dec. 31, 2006*
Defined benefit plans	**$(55)**	$(120)
Foreign currency translation	**(15)**	(17)
Derivatives	**(4)**	(5)
Total	**$(74)**	$(142)

14. Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of FAS 157 are effective for us beginning in 2008. We expect this new standard will result in increased disclosures but will not have a significant impact on our financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). The fair value option established by FAS 159 permits, but does not require, all entities to choose to measure eligible items at fair value at specified election dates. An entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. FAS 159 is effective for us beginning in 2008. We do not currently intend to elect the fair value option for any eligible items and do not expect this standard to have a significant impact on our financial position or results of operations.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), *Business Combinations* (FAS 141R). FAS 141R will change the accounting for business combinations. Under FAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. FAS 141R will also change the accounting treatment and disclosures with respect to certain specific items in a business combination. FAS 141R applies to us prospectively for business combinations occurring on or after January 1, 2009. Accordingly, any business combinations we engage in will be recorded and disclosed following existing GAAP until January 1, 2009. We expect FAS 141R will have an impact on accounting for business combinations, but the effect will be dependent upon any potential future acquisitions.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51* (FAS 160). FAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for us beginning in 2009. We are still assessing the potential impact, if any, of the adoption of FAS 160 on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB ratified the consensus reached on Emerging Issues Task Force (EITF) Issue No. 07-1, *Collaborative Arrangements* (EITF 07-1), which defines collaborative arrangements and establishes reporting and disclosure requirements for transactions between participants in a collaborative arrangement. The requirements of this EITF will be applied to collaborative arrangements in existence on or after January 1, 2009. We are still assessing the potential impact, if any, of the adoption of EITF 07-1 on our consolidated financial position, results of operations and cash flows.