

UNION PACIFIC CORP  
Form 10-Q  
October 26, 2017  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

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UTAH	13-2626465
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes      No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes      No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes      No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

As of October 20, 2017, there were 787,168,815 shares of the Registrant's Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## Condensed Consolidated Statements of Income (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

for the Three Months Ended September 30,	2017	2016
Operating revenues:		
Freight revenues	\$ 5,050	\$ 4,837
Other revenues	358	337
Total operating revenues	5,408	5,174
Operating expenses:		
Compensation and benefits	1,298	1,191
Purchased services and materials	615	566
Depreciation	528	512
Fuel	450	392
Equipment and other rents	275	282
Other	230	271
Total operating expenses	3,396	3,214
Operating income	2,012	1,960
Other income (Note 7)	151	29
Interest expense	(180)	(184)
Income before income taxes	1,983	1,805
Income taxes	(789)	(674)
Net income	\$ 1,194	\$ 1,131
Share and Per Share (Note 9):		
Earnings per share - basic	\$ 1.50	\$ 1.36
Earnings per share - diluted	\$ 1.50	\$ 1.36
Weighted average number of shares - basic	794.5	829.0
Weighted average number of shares - diluted	797.6	832.2
Dividends declared per share	\$ 0.605	\$ 0.55

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions, for the Three Months Ended September 30,	2017	2016
Net income	\$ 1,194	\$ 1,131
Other comprehensive income/(loss):		
Defined benefit plans	40	14
Foreign currency translation	9	(1)
Total other comprehensive income/(loss) [a]	49	13
Comprehensive income	\$ 1,243	\$ 1,144

[a]Net of deferred taxes of \$(27) million and \$(7) million during the three months ended September 30, 2017, and 2016, respectively.

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

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## Condensed Consolidated Statements of Income (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, Except Per Share Amounts,

for the Nine Months Ended September 30,	2017	2016
Operating revenues:		
Freight revenues	\$ 14,750	\$ 13,769
Other revenues	1,040	1,004
Total operating revenues	15,790	14,773
Operating expenses:		
Compensation and benefits	3,752	3,564
Purchased services and materials	1,778	1,705
Depreciation	1,573	1,518
Fuel	1,344	1,058
Equipment and other rents	824	857
Other	709	764
Total operating expenses	9,980	9,466
Operating income	5,810	5,307
Other income (Note 7)	261	152
Interest expense	(531)	(524)
Income before income taxes	5,540	4,935
Income taxes	(2,106)	(1,846)
Net income	\$ 3,434	\$ 3,089
Share and Per Share (Note 9):		
Earnings per share - basic	\$ 4.27	\$ 3.69
Earnings per share - diluted	\$ 4.26	\$ 3.68
Weighted average number of shares - basic	803.4	836.8
Weighted average number of shares - diluted	806.5	839.6
Dividends declared per share	\$ 1.815	\$ 1.65

## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

## Union Pacific Corporation and Subsidiary Companies



Millions,		
for the Nine Months Ended September 30,	2017	2016
Net income	\$ 3,434	\$ 3,089
Other comprehensive income/(loss):		
Defined benefit plans	66	35
Foreign currency translation	34	(25)
Total other comprehensive income/(loss) [a]	100	10
Comprehensive income	\$ 3,534	\$ 3,099

[a]Net of deferred taxes of \$(59) million and \$(8) million during the nine months ended September 30, 2017, and 2016, respectively.

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

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## Condensed Consolidated Statements of Financial Position (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, Except Share and Per Share Amounts	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,847	\$ 1,277
Short-term investments (Note 14)	90	60
Accounts receivable, net (Note 11)	1,428	1,258
Materials and supplies	742	717
Other current assets	342	284
Total current assets	4,449	3,596
Investments	1,566	1,457
Net properties (Note 12)	51,036	50,389
Other assets	346	276
Total assets	\$ 57,397	\$ 55,718
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 13)	\$ 2,928	\$ 2,882
Debt due within one year (Note 15)	903	758
Total current liabilities	3,831	3,640
Debt due after one year (Note 15)	15,930	14,249
Deferred income taxes	16,524	15,996
Other long-term liabilities	1,961	1,901
Commitments and contingencies (Note 17)		
Total liabilities	38,246	35,786
Common shareholders' equity:		
Common shares, \$2.50 par value, 1,400,000,000 authorized; 1,111,418,228 and 1,110,986,415 issued; 789,834,578 and 815,824,413 outstanding, respectively	2,778	2,777
Paid-in-surplus	4,454	4,421
Retained earnings	34,561	32,587
Treasury stock	(21,470)	(18,581)
Accumulated other comprehensive loss (Note 10)	(1,172)	(1,272)
Total common shareholders' equity	19,151	19,932
Total liabilities and common shareholders' equity	\$ 57,397	\$ 55,718

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

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## Condensed Consolidated Statements of Cash Flows (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions, for the Nine Months Ended September 30,	2017	2016
<b>Operating Activities</b>		
Net income	\$ 3,434	\$ 3,089
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	1,573	1,518
Deferred and other income taxes	514	519
Other operating activities, net	85	(268)
Changes in current assets and liabilities:		
Accounts receivable, net	(170)	5
Materials and supplies	(25)	46
Other current assets	(58)	(15)
Accounts payable and other current liabilities	(43)	79
Income and other taxes	88	494
Cash provided by operating activities	5,398	5,467
<b>Investing Activities</b>		
Capital investments	(2,379)	(2,604)
Proceeds from asset sales	152	116
Purchases of short-term investments (Note 14)	(90)	(580)
Maturities of short-term investments (Note 14)	60	250
Other investing activities, net	(3)	(1)
Cash used in investing activities	(2,260)	(2,819)
<b>Financing Activities</b>		
Common share repurchases (Note 18)	(2,882)	(2,100)
Debt issued (Note 15)	2,285	1,883
Dividends paid	(1,460)	(1,382)
Debt repaid	(471)	(481)
Other financing activities, net	(40)	(50)
Cash used in financing activities	(2,568)	(2,130)
Net change in cash and cash equivalents	570	518
Cash and cash equivalents at beginning of year	1,277	1,391
Cash and cash equivalents at end of period	\$ 1,847	\$ 1,909
<b>Supplemental Cash Flow Information</b>		
Non-cash investing and financing activities:		
Capital investments accrued but not yet paid	\$ 120	\$ 106
Common shares repurchased but not yet paid	29	65
Cash (paid for)/received from:		

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Income taxes, net of refunds	\$ (1,557)	\$ (877)
Interest, net of amounts capitalized	(532)	(540)

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

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## Condensed Consolidated Statements of Changes in Common Shareholders' Equity (Unaudited)

## Union Pacific Corporation and Subsidiary Companies

Millions	Common Shares	Treasury Shares	Common Shares	Paid-in-Surplus	Retained Earnings	Treasury Stock	AOCI [a]	Total
Balance at January 1, 2016	1,110.4	(261.2)	\$ 2,776	\$ 4,417	\$ 30,233	\$ (15,529)	\$ (1,195)	\$ 20,702
Net income			-	-	3,089	-	-	3,089
Other comprehensive income			-	-	-	-	10	10
Conversion, stock option exercises, forfeitures, and other	0.6	0.8	1	(11)	-	40	-	30
Share repurchases (Note 18)	-	(25.4)	-	-	-	(2,165)	-	(2,165)
Cash dividends declared (\$1.65 per share)	-	-	-	-	(1,382)	-	-	(1,382)
Balance at September 30, 2016	1,111.0	(285.8)	\$ 2,777	\$ 4,406	\$ 31,940	\$ (17,654)	\$ (1,185)	\$ 20,284
Balance at January 1, 2017	1,111.0	(295.2)	\$ 2,777	\$ 4,421	\$ 32,587	\$ (18,581)	\$ (1,272)	\$ 19,932
Net income			-	-	3,434	-	-	3,434
Other comprehensive income			-	-	-	-	100	100
Conversion, stock option exercises, forfeitures, and other	0.4	0.7	1	33	-	22	-	56
Share repurchases	-	(27.1)	-	-	-	(2,911)	-	(2,911)

(Note 18)

Cash dividends

declared

(\$1.815 per share)	-	-	-	-	(1,460)	-	-	(1,460)
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Balance at

September 30, 2017	1,111.4	(321.6)	\$ 2,778	\$ 4,454	\$ 34,561	\$ (21,470)	\$ (1,172)	\$ 19,151
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[a]AOCI = Accumulated Other Comprehensive Income/(Loss) (Note 10)

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

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UNION PACIFIC CORPORATION AND 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 “Corporation”, “Company”, “UPC”, “we”, “us”, and “our” mean Union Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which will be separately referred to herein as “UPRR” or the “Railroad”.

1. Basis of Presentation

Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, this Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2016 Annual Report on Form 10-K. Our Consolidated Statement of Financial Position at December 31, 2016, is derived from audited financial statements. The results of operations for the nine months ended September 30, 2017, are not necessarily indicative of the results for the entire year ending December 31, 2017.

The Condensed Consolidated Financial Statements are presented in accordance with GAAP as codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

2. Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). ASU 2014-09 supersedes the revenue recognition guidance in Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to



be entitled in the exchange for those goods or services. This may require the use of more judgment and estimates in order to correctly recognize the revenue expected as an outcome of each specific performance obligation. Additionally, this guidance will require the disclosure of the nature, amount, and timing of revenue arising from contracts so as to aid in the understanding of the users of financial statements.

This standard is effective for annual reporting periods beginning after December 15, 2017, and we intend to adopt the standard beginning in 2018 using the modified retrospective transition method. The Company has analyzed a significant proportion of our freight and other revenues and we expect to continue to recognize freight revenues as freight moves from origin to destination and to recognize other revenues as identified performance obligations are satisfied. We are currently analyzing freight and other revenues in the context of the new guidance on principal versus agent considerations and evaluating the required new disclosures. At this time, ASU 2014-09 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01), Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). ASU 2016-01 provides guidance for the recognition, measurement, presentation, and disclosure of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted. ASU 2016-01 is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Subtopic 842). ASU 2016-02 will require companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. Management is currently evaluating the impact of this standard on our consolidated financial

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position, results of operations, and cash flows, but expects that the adoption will result in a significant increase in the Company's assets and liabilities.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 (ASU 2017-07), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715). ASU 2017-07 requires the service cost component be reported separately from the other components of net benefit costs in the income statement, provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the income statement, and allows only the service cost component of net benefit cost to be eligible for capitalization. This standard is effective for annual and interim reporting periods beginning after December 15, 2017, and requires retrospective adoption. Early adoption is permitted. ASU 2017-07 is not expected to have an impact on our consolidated financial position, results of operations, cash flows, net income or earnings per share as a result of adopting this new standard. The Company currently records service costs and net benefit costs within compensation and benefits expense. Upon adoption, only the service cost will be recorded within compensation and benefits expense, and the other components of net benefit costs, including \$67 million related to the 2017 workforce reduction plan as described in Note 6, will be recorded in other income. The retrospective impact of future adoption is shown in the table below:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Millions				
Increase/(decrease) in operating income	\$ 61	\$ (8)	\$ 49	\$ (24)
Increase/(decrease) in other income	(61)	8	(49)	24

### 3. Workforce Reduction Plan

On August 16, 2017, the Company approved and commenced a management and administrative personnel reorganization plan (the "Plan") furthering its on-going efforts to increase efficiency and more effectively align Company resources. The Plan implemented productivity initiatives identified during a recently completed Company-wide organizational review that included the reduction of approximately 460 management positions and 150 agreement positions. An additional 100 agreement positions have been identified and will be eliminated throughout the remainder of 2017. The Plan resulted in a pretax charge recognized in the third quarter of 2017 within compensation and benefits expense in our Condensed Consolidated Statements of Income. This charge consisted of management employee termination benefits, including pension expenses, severance costs, and acceleration of equity compensation expense as shown in the table below. The actions associated with the Plan are substantially complete, and we do not expect to incur additional charges for the Plan in subsequent years.

Millions	Compensation and	
As of September 30, 2017	Benefits Expense	Liability
Pension	\$ 67	\$ 67
Severance	12	12
Equity Compensation	5	5
Total	\$ 84	\$ 84

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## 4. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although we provide and analyze revenue by commodity group, we treat the financial results of the Railroad as one segment due to the integrated nature of our rail network. The following table provides freight revenue by commodity group:

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Agricultural Products	\$ 914	\$ 937	\$ 2,763	\$ 2,664
Automotive	469	485	1,486	1,483
Chemicals	896	875	2,679	2,617
Coal	711	728	1,978	1,741
Industrial Products	1,079	855	3,016	2,519
Intermodal	981	957	2,828	2,745
Total freight revenues	\$ 5,050	\$ 4,837	\$ 14,750	\$ 13,769
Other revenues	358	337	1,040	1,004
Total operating revenues	\$ 5,408	\$ 5,174	\$ 15,790	\$ 14,773

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products we transport are outside the U.S. Each of our commodity groups includes revenue from shipments to and from Mexico. Included in the above table are freight revenues from our Mexico business which amounted to \$555 million and \$564 million, respectively, for the three months ended September 30, 2017, and September 30, 2016, and \$1,697 million and \$1,649 million, respectively, for the nine months ended September 30, 2017, and September 30, 2016.

## 5. Stock-Based Compensation

We have several stock-based compensation plans under which employees and non-employee directors receive stock options, nonvested retention shares, and nonvested stock units. We refer to the nonvested shares and stock units collectively as “retention awards”. We have elected to issue treasury shares to cover option exercises and stock unit vestings, while new shares are issued when retention shares are granted. Information regarding stock-based compensation appears in the table below:

Millions	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30,	30,	30,	30,
	2017	2016	2017	2016
Stock-based compensation, before tax:				
Stock options	\$ 6	\$ 5	\$ 15	\$ 13
Retention awards	24	15	68	48
Total stock-based compensation, before tax	\$ 30	\$ 20	\$ 83	\$ 61
Excess tax benefits from equity compensation plans	\$ 4	\$ 5	\$ 29	\$ 21

Stock Options – We estimate the fair value of our stock option awards using the Black-Scholes option pricing model. The table below shows the annual weighted-average assumptions used for valuation purposes:

Weighted-Average Assumptions	2017	2016
Risk-free interest rate	2.0%	1.3%
Dividend yield	2.3%	2.9%
Expected life (years)	5.3	5.1
Volatility	21.7%	23.2%
Weighted-average grant-date fair value of options granted	\$ 18.19	\$ 11.36

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

A summary of stock option activity during the nine months ended September 30, 2017, is presented below:

	Options (thous.)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Intrinsic Value
			(yrs.)	(millions)
Outstanding at January 1, 2017	6,162	\$ 73.13	5.9 yrs.	\$ 205
Granted	1,086	107.30	N/A	N/A
Exercised	(648)	47.64	N/A	N/A
Forfeited or expired	(90)	91.17	N/A	N/A
Outstanding at September 30, 2017	6,510	\$ 81.12	6.0 yrs.	\$ 233
Vested or expected to vest at September 30, 2017	6,477	\$ 80.98	6.0 yrs.	\$ 233
Options exercisable at September 30, 2017	4,118	\$ 72.95	4.5 yrs.	\$ 181

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 September 30, 2017, are subject to performance or market-based vesting conditions.

At September 30, 2017, there was \$22 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.4 years. Additional information regarding stock option exercises appears in the table below:

Millions	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Intrinsic value of stock options exercised	\$ 10	\$ 15	\$ 40	\$ 32
Cash received from option exercises	11	11	39	24
Treasury shares repurchased for employee payroll taxes	(3)	(4)	(12)	(9)

Tax benefit realized from option exercises	4	5	15	12
Aggregate grant-date fair value of stock options vested	-	-	19	19

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

Changes in our retention awards during the nine months ended September 30, 2017, were as follows:

	Shares (thous.)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2017	2,789	\$ 84.68
Granted	562	107.30
Vested	(801)	68.10
Forfeited	(79)	92.82
Nonvested at September 30, 2017	2,471	\$ 94.94

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At September 30, 2017, there was \$99 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.8 years.

Performance Retention Awards – In February 2017, our Board of Directors approved performance stock unit grants. The basic terms of these performance stock units are identical to those granted in February 2016, except for different annual return on invested capital (ROIC) performance targets. The 2016 and

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2017 plans also include relative operating income growth (OIG) as a modifier compared to the companies included in the S&P 500 Industrials Index. We define ROIC as net operating profit adjusted for interest expense (including interest on the present value of operating leases) and taxes on interest divided by average invested capital adjusted for the present value of operating leases. The modifier can be up to +/- 25% of the award earned based on the ROIC achieved.

Stock units awarded to selected employees under these grants are subject to continued employment for 37 months and the attainment of certain levels of ROIC, and for the 2016 and 2017 plans, modified for the relative OIG. 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, and with respect to the third year of the 2016 and 2017 plans, the relative OIG modifier. 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 2017 grant were as follows:

	2017
Dividend per share per quarter	\$ 0.605
Risk-free interest rate at date of grant	1.5%

Changes in our performance retention awards during the nine months ended September 30, 2017, were as follows:

	Shares (thous.)	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2017	1,145	\$ 86.23
Granted	461	101.38
Vested	(255)	83.06
Unearned	(110)	83.06
Forfeited	(52)	92.20
Nonvested at September 30, 2017	1,189	\$ 92.82



At September 30, 2017, there was \$47 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.8 years. This expense is subject to achievement of the performance measures established for the performance stock unit grants.

## 6. Retirement Plans

### Pension and Other Postretirement Benefits

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

**Other Postretirement Benefits (OPEB)** – We provide medical and life insurance benefits for eligible retirees. 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

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assumptions. Differences in actual experience in relation to assumptions are not recognized in net income immediately, but are deferred in accumulated other comprehensive income and, if necessary, amortized as pension or OPEB expense.

The workforce reduction plan initiated in the third quarter of 2017 included a curtailment loss of \$20 million and a special termination benefit of \$47 million as a result of a remeasurement as of September 30, 2017, due to the eliminated future service for approximately 460 management employees. These amounts were recognized in the third quarter of 2017 within compensation and benefits expense in our Condensed Consolidated Statements of Income. In connection with this remeasurement, the Company also updated the pension effective discount rate assumption from 4.20% to 3.81%.

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

Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Service cost	\$ 21	\$ 21	\$ 66	\$ 64
Interest cost	35	36	106	107
Expected return on plan assets	(66)	(67)	(198)	(201)
Curtailment cost	20	-	20	-
Special termination cost	47	-	47	-
Amortization of actuarial loss	20	21	59	62
Net periodic pension cost	\$ 77	\$ 11	\$ 100	\$ 32

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

Three Months Ended September 30,	Nine Months Ended September 30,
----------------------------------------------	---------------------------------------------

Millions	2017	2016	2017	2016
Service cost	\$ -	\$ -	\$ 1	\$ 1
Interest cost	3	2	8	8
Amortization of:				
Prior service credit	-	(2)	-	(7)
Actuarial loss	2	2	7	7
Net periodic OPEB cost	\$ 5	\$ 2	\$ 16	\$ 9

#### Cash Contributions

For the nine months ended September 30, 2017, we did not make any cash contributions to the qualified pension plan. Any contributions made during 2017 will be based on cash generated from operations and financial market considerations. Our policy with respect to funding the qualified plans is to fund at least the minimum required by law and not more than the maximum amount deductible for tax purposes. At September 30, 2017, we do not have minimum cash funding requirements for 2017.

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## 7. Other Income

Other income included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Millions				
Rental income [a]	\$ 89	\$ 23	\$ 152	\$ 71
Net gain on non-operating asset dispositions [b] [c]	63	3	108	91
Interest income	4	3	10	8
Non-operating environmental costs and other	(5)	-	(9)	(18)
Total	\$ 151	\$ 29	\$ 261	\$ 152

[a]2017 includes \$65 million related to a favorable litigation settlement in the third quarter.

[b]2017 includes \$26 million related to a real estate sale in the first quarter and \$57 million related to a real estate sale in the third quarter.

[c]2016 includes \$17 million related to a real estate sale in the first quarter and \$50 million related to a real estate sale in the second quarter.

## 8. Income Taxes

The statute of limitations has run for all years prior to 2013 and UPC is not currently under examination by the Internal Revenue Service (IRS) for any of its open years. In 2017, UPC amended its 2013 income tax returns, primarily to claim deductions resulting from the resolution of prior year IRS examinations.

In 2016, UPC amended its 2011 and 2012 income tax returns to claim deductions resulting from the resolution of IRS examinations for years prior to 2011. The IRS and Joint Committee on Taxation have completed their review of these amended returns, and in the third quarter of 2017, we received a refund of \$62 million, consisting of \$60 million of tax and \$2 million of interest.

Several state tax authorities are examining our state tax returns for years 2006 through 2014.

At September 30, 2017, we had a net liability for unrecognized tax benefits of \$170 million.

On July 6, 2017, the State of Illinois increased its corporate income tax rate effective July 1, 2017. In the third quarter of 2017, we increased our deferred tax expense by \$33 million to reflect the increased tax rate.

## 9. Earnings Per Share

The following table provides a reconciliation between basic and diluted earnings per share:

Millions, Except Per Share Amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 1,194	\$ 1,131	\$ 3,434	\$ 3,089
Weighted-average number of shares outstanding:				
Basic	794.5	829.0	803.4	836.8
Dilutive effect of stock options	1.7	1.6	1.7	1.4
Dilutive effect of retention shares and units	1.4	1.6	1.4	1.4
Diluted	797.6	832.2	806.5	839.6
Earnings per share – basic	\$ 1.50	\$ 1.36	\$ 4.27	\$ 3.69
Earnings per share – diluted	\$ 1.50	\$ 1.36	\$ 4.26	\$ 3.68
Stock options excluded as their inclusion would be anti-dilutive	1.9	0.9	1.8	2.4

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## 10. Accumulated Other Comprehensive Income/(Loss)

Reclassifications out of accumulated other comprehensive income/(loss) for the three and nine months ended September 30, 2017, and 2016, were as follows (net of tax):

Millions	Defined benefit plans	Foreign currency translation	Total
Balance at July 1, 2017	\$ (1,106)	\$ (115)	\$ (1,221)
Other comprehensive income/(loss) before reclassifications	3	9	12
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	37	-	37
Net quarter-to-date other comprehensive income/(loss), net of taxes of \$(27) million	40	9	49
Balance at September 30, 2017	\$ (1,066)	\$ (106)	\$ (1,172)
Balance at July 1, 2016	\$ (1,082)	\$ (116)	\$ (1,198)
Other comprehensive income/(loss) before reclassifications	1	(1)	-
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	13	-	13
Net quarter-to-date other comprehensive income/(loss), net of taxes of \$(7) million	14	(1)	13
Balance at September 30, 2016	\$ (1,068)	\$ (117)	\$ (1,185)

Millions	Defined benefit plans	Foreign currency translation	Total
Balance at January 1, 2017	\$ (1,132)	\$ (140)	\$ (1,272)
Other comprehensive income/(loss) before reclassifications	1	34	35
Amounts reclassified from accumulated other comprehensive income/(loss) [a]	65	-	65
Net year-to-date other comprehensive income/(loss), net of taxes of \$(59) million	66	34	100
Balance at September 30, 2017	\$ (1,066)	\$ (106)	\$ (1,172)
Balance at January 1, 2016	\$ (1,103)	\$ (92)	\$ (1,195)
Other comprehensive income/(loss) before reclassifications	(4)	(25)	(29)

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Amounts reclassified from accumulated other comprehensive income/(loss) [a]	39	-	39
Net year-to-date other comprehensive income/(loss), net of taxes of \$(8) million	35	(25)	10
Balance at September 30, 2016	\$ (1,068)	\$ (117)	\$ (1,185)

[a]The accumulated other comprehensive income/(loss) reclassification components are 1) prior service cost/(credit) and 2) net actuarial loss which are both included in the computation of net periodic pension cost. See Note 6 Retirement Plans for additional details.

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11. Accounts Receivable

Accounts receivable includes freight and other receivables reduced by an allowance for doubtful accounts. The allowance is based upon historical losses, credit worthiness of customers, and current economic conditions. At September 30, 2017, and December 31, 2016, our accounts receivable were reduced by \$2 million and \$5 million, respectively. Receivables not expected to be collected in one year and the associated allowances are classified as other assets in our Condensed Consolidated Statements of Financial Position. At both September 30, 2017, and December 31, 2016, receivables classified as other assets were reduced by allowances of \$17 million.

Receivables Securitization Facility – The Railroad maintains a \$650 million, 3-year receivables securitization facility (the Receivables Facility) maturing in July 2019. Under the Receivables Facility, the Railroad sells most of its eligible third-party receivables to Union Pacific Receivables, Inc. (UPRI), a consolidated, wholly-owned, bankruptcy-remote subsidiary that may subsequently transfer, without recourse, an undivided interest in accounts receivable to investors. The investors have no recourse to the Railroad’s other assets except for customary warranty and indemnity claims. Creditors of the Railroad do not have recourse to the assets of UPRI.

The amount outstanding under the Receivables Facility was \$200 million and \$0 at September 30, 2017, and December 31, 2016, respectively. The Receivables Facility was supported by \$1.1 billion and \$1.0 billion of accounts receivable as collateral at September 30, 2017, and December 31, 2016, respectively, which, as a retained interest, is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The outstanding amount the Railroad is allowed to maintain under the Receivables Facility, with a maximum of \$650 million, may fluctuate based on the availability of eligible receivables and is directly affected by business volumes and credit risks, including receivables payment quality measures such as default and dilution ratios. If default or dilution ratios increase one percent, the allowable outstanding amount under the Receivables Facility would not materially change.

The costs of the Receivables Facility include interest, which will vary based on prevailing benchmark and commercial paper rates, program fees paid to participating banks, commercial paper issuance costs, and fees of participating banks for unused commitment availability. The costs of the Receivables Facility are included in interest expense and were \$1 million and \$2 million for the three months ended September 30, 2017, and 2016, respectively, and \$4 million and \$5 million for the nine months ended September 30, 2017, and 2016, respectively.





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## 12. Properties

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

Millions, Except Estimated Useful Life As of September 30, 2017	Cost	Accumulated Depreciation	Net Book Value	Estimated Useful Life
Land	\$ 5,228	\$ N/A	\$ 5,228	N/A
Road:				
Rail and other track material	16,226	5,869	10,357	43
Ties	10,084	2,863	7,221	33
Ballast	5,376	1,493	3,883	34
Other roadway [a]	18,732	3,420	15,312	47
Total road	50,418	13,645	36,773	N/A
Equipment:				
Locomotives	9,309	3,606	5,703	20
Freight cars	2,254	980	1,274	24
Work equipment and other	939	263	676	19
Total equipment	12,502	4,849	7,653	N/A
Technology and other	1,028	441	587	11
Construction in progress	795	-	795	N/A
Total	\$ 69,971	\$ 18,935	\$ 51,036	N/A

Millions, Except Estimated Useful Life As of December 31, 2016	Cost	Accumulated Depreciation	Net Book Value	Estimated Useful Life
Land	\$ 5,220	\$ N/A	\$ 5,220	N/A
Road:				
Rail and other track material	15,845	5,722	10,123	40
Ties	9,812	2,736	7,076	33
Ballast	5,242	1,430	3,812	34
Other roadway [a]	18,138	3,226	14,912	47
Total road	49,037	13,114	35,923	N/A
Equipment:				
Locomotives	9,692	3,939	5,753	20
Freight cars	2,243	972	1,271	24
Work equipment and other	905	232	673	19

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Total equipment	12,840	5,143	7,697	N/A
Technology and other	974	412	562	11
Construction in progress	987	-	987	N/A
Total	\$ 69,058	\$ 18,669	\$ 50,389	N/A

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

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## 13. Accounts Payable and Other Current Liabilities

Millions	Sep. 30, Dec. 31,	
	2017	2016
Accounts payable	\$ 838	\$ 955
Income and other taxes payable	561	472
Accrued wages and vacation	384	387
Accrued casualty costs	203	185
Interest payable	179	212
Equipment rents payable	107	101
Other	656	570
Total accounts payable and other current liabilities	\$ 2,928	\$ 2,882

## 14. Financial Instruments

Short-Term Investments – The Company’s short-term investments consist of time deposits (\$90 million as of September 30, 2017). These investments are considered level 2 investments and are valued at amortized cost, which approximates fair value. All short-term investments have a maturity of less than one year and are classified as held-to-maturity. There were no transfers out of Level 2 during the nine months ended September 30, 2017.

Fair Value of Financial Instruments – The fair value of our short- and long-term debt was estimated using a market value price model, which utilizes applicable U.S. Treasury rates along with current market quotes on comparable debt securities. All of the inputs used to determine the fair market value of the Corporation’s long-term debt are Level 2 inputs and obtained from an independent source. At September 30, 2017, the fair value of total debt was \$18.0 billion, approximately \$1.2 billion more than the carrying value. At December 31, 2016, the fair value of total debt was \$15.9 billion, approximately \$0.9 billion more than the carrying value. The fair value of the Corporation’s debt is a measure of its current value under present market conditions. It does not impact the financial statements under current accounting rules. At both September 30, 2017, and December 31, 2016, approximately \$155 million of debt securities contained call provisions that allow us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par. The fair value of our cash equivalents approximates their carrying value due to the short-term maturities of these instruments.

## 15. Debt

Credit Facilities – At September 30, 2017, we had \$1.7 billion of credit available under our revolving credit facility, which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility during the nine months ended September 30, 2017. Commitment fees and interest rates payable under the facility are similar to fees and rates available to comparably rated, investment-grade borrowers. The facility allows for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon credit ratings for our senior unsecured debt. The facility matures in May 2019 under a five-year term and requires UPC to maintain a debt-to-net-worth coverage ratio.

The definition of debt used for purposes of calculating the debt-to-net-worth coverage ratio includes, among other things, certain credit arrangements, capital leases, guarantees and unfunded and vested pension benefits under Title IV of ERISA. At September 30, 2017, the Company was in compliance with the debt-to-net-worth coverage ratio, which allows us to carry up to \$38.3 billion of debt (as defined in the facility), and we had \$16.9 billion of debt (as defined in the facility) outstanding at that date. Under our current financial plans, we expect to continue to satisfy the debt-to-net-worth coverage ratio; however, many factors beyond our reasonable control could affect our ability to comply with this provision in the future. The facility does not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require us to post collateral. The facility also includes a \$125 million cross-default provision and a change-of-control provision.

During the three and nine months ended September 30, 2017, we did not issue or repay any commercial paper, and at September 30, 2017, we had no commercial paper outstanding. Our revolving credit facility supports our outstanding commercial paper balances, and, unless we change the terms of our commercial

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paper program, our aggregate issuance of commercial paper will not exceed the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings – In 2016, the Board of Directors reauthorized the issuance of up to \$4.0 billion of debt securities. Under our shelf registration, we may issue, from time to time, any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings.

During the nine months ended September 30, 2017, we issued the following unsecured, fixed-rate debt securities under our current shelf registration:

Date	Description of Securities
April 5, 2017	\$500 million of 3.000% Notes due April 15, 2027
	\$500 million of 4.000% Notes due April 15, 2047
September 19, 2017	\$500 million of 3.600% Notes due September 15, 2037
	\$500 million of 4.100% Notes due September 15, 2067

We used the net proceeds from this offering for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program. These debt securities include change-of-control provisions. At September 30, 2017, we had remaining authority to issue up to \$1.55 billion of debt securities under our shelf registration.

As of September 30, 2017, we reclassified as long-term debt \$100 million of debt due within one year that we intend to refinance. This reclassification reflects our ability and intent to refinance any short-term borrowings and certain current maturities of long-term debt on a long-term basis.

Receivables Securitization Facility – As of September 30, 2017, and December 31, 2016, we recorded \$200 million and \$0, respectively, of borrowings under our Receivables Facility as secured debt. (See further discussion of our receivables securitization facility in Note 11).

16. Variable Interest Entities

We have entered into various lease transactions in which the structure of the leases contain variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions (principally involving railroad equipment and facilities) and have no other activities, assets or liabilities outside of the lease transactions. Within these lease arrangements, we have the right to purchase some or all of the assets at fixed prices. Depending on market conditions, fixed-price purchase options available in the leases could potentially provide benefits to us; however, these benefits are not expected to be significant.

We maintain and operate the assets based on contractual obligations within the lease arrangements, which set specific guidelines consistent within the railroad industry. As such, we have no control over activities that could materially impact the fair value of the leased assets. We do not hold the power to direct the activities of the VIEs and, therefore, do not control the ongoing activities that have a significant impact on the economic performance of the VIEs. Additionally, we do not have the obligation to absorb losses of the VIEs or the right to receive benefits of the VIEs that could potentially be significant to the VIEs.

We are not considered to be the primary beneficiary and do not consolidate these VIEs because our actions and decisions do not have the most significant effect on the VIE's performance and our fixed-price purchase options are not considered to be potentially significant to the VIEs. The future minimum lease payments associated with the VIE leases totaled \$2.0 billion as of September 30, 2017.

## 17. Commitments and Contingencies

**Asserted and Unasserted Claims –** Various claims and lawsuits are pending against us and certain of our subsidiaries. We cannot fully determine the effect of all asserted and unasserted claims on our consolidated results of operations, financial condition, or liquidity. To the extent possible, we have recorded a liability where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated

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results of operations, financial condition, or liquidity after taking into account liabilities and insurance recoveries previously recorded for these matters.

**Personal Injury** – The cost of personal injuries to employees and others related to our activities is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use an actuarial analysis to measure the expense and liability, including unasserted claims. The Federal Employers’ Liability Act (FELA) governs compensation for work-related accidents. Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. We offer a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

Our personal injury liability is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 95% of the recorded liability is related to asserted claims and approximately 5% is related to unasserted claims at September 30, 2017. 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 \$287 million to \$313 million. We record an accrual at the low end of the range as no amount of loss within the range is more probable than any other. Estimates can vary over time due to evolving trends in litigation.

Our personal injury liability activity was as follows:

Millions, for the Nine Months Ended September 30,	2017	2016
Beginning balance	\$ 290	\$ 318
Current year accruals	58	54
Changes in estimates for prior years	(6)	(30)
Payments	(55)	(54)
Ending balance at September 30	\$ 287	\$ 288
Current portion, ending balance at September 30	\$ 69	\$ 62

We have insurance coverage for a portion of the costs incurred to resolve personal injury-related claims, and we have recognized an asset for estimated insurance recoveries at September 30, 2017, and December 31, 2016. Any changes to recorded insurance recoveries are included in the above table in the Changes in estimates for prior years category.

**Asbestos** – We are a defendant in a number of lawsuits in which current and former employees and other parties allege exposure to asbestos. We assess our potential liability using a statistical analysis of resolution costs for



asbestos-related claims. This liability is updated annually and excludes future defense and processing costs. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

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

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 19% of the recorded liability related to asserted claims and approximately 81% related to unasserted claims at September 30, 2017.

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Our asbestos-related liability activity was as follows:

Millions, for the Nine Months Ended September 30,	2017	2016
Beginning balance	\$ 111	\$ 120
Accruals	-	-
Payments	(10)	(18)
Ending balance at September 30	\$ 101	\$ 102
Current portion, ending balance at September 30	\$ 8	\$ 7

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 September 30, 2017, and December 31, 2016.

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

**Environmental Costs** – We are subject to federal, state, and local environmental laws and regulations. We have identified 317 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 33 sites that are the subject of actions taken by the U.S. government, 21 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

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

Our environmental liability activity was as follows:

Millions, for the Nine Months Ended September 30,	2017	2016
Beginning balance	\$ 212	\$ 190
Accruals	31	66
Payments	(42)	(48)
Ending balance at September 30	\$ 201	\$ 208
Current portion, ending balance at September 30	\$ 56	\$ 54

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.

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

Guarantees – At September 30, 2017, and December 31, 2016, we were contingently liable for \$33 million and \$43 million in guarantees, respectively. The fair value of these obligations as of both September 30, 2017, and December 31, 2016 was \$0. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

Indemnities – We are contingently obligated under a variety of indemnification arrangements, although in some cases the extent of our potential liability is limited, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Operating Leases – At September 30, 2017, we had commitments for future minimum lease payments under operating leases with initial or remaining non-cancelable lease terms in excess of one year of approximately \$2.7 billion.

## 18. Share Repurchase Program

Effective January 1, 2017, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2020, replacing our previous repurchase program. As of September 30, 2017, we repurchased a total of \$22.0 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased in the first three quarters of 2017 under our new repurchase program, and shares repurchased in the first three quarters of 2016 under our previous repurchase program.

	Number of Shares		Average Price	
	Purchased		Paid	
	2017	2016	2017	2016
First quarter	7,531,300	9,315,807	\$ 106.55	\$ 76.49
Second quarter	7,788,283	7,026,100	109.10	85.66
Third quarter	11,801,755	9,088,613	106.69	93.63
Total	27,121,338	25,430,520	\$ 107.34	\$ 85.15
Remaining number of shares that may be repurchased under current authority			92,878,662	

Management's assessments of market conditions and other pertinent factors guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

From October 1, 2017, through October 25, 2017, we repurchased 3.15 million shares at an aggregate cost of approximately \$356 million.

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19. Related Parties

UPRR and other North American railroad companies jointly own TTX Company (TTX). UPRR has a 36.79% economic and voting interest in TTX while the other North American railroads own the remaining interest. In accordance with ASC 323 Investments - Equity Method and Joint Venture, UPRR applies the equity method of accounting to our investment in TTX.

TTX is a railcar pooling company that owns railcars and intermodal wells to serve North America's railroads. TTX assists railroads in meeting the needs of their customers by providing railcars in an efficient, pooled environment. All railroads have the ability to utilize TTX railcars through car hire by renting railcars at stated rates.

UPRR had \$935 million and \$877 million recognized as investments related to TTX in our Condensed Consolidated Statements of Financial Position as of September 30, 2017, and December 31, 2016, respectively. TTX car hire expenses of \$100 million and \$93 million for the three months ended September 30, 2017, and 2016, respectively, and \$284 million and \$275 million for the nine months ended September 30, 2017 and 2016, respectively, are included in equipment and other rents in our Condensed Consolidated Statements of Income. In addition, UPRR had accounts payable to TTX of \$67 million and \$61 million as of September 30, 2017, and December 31, 2016, respectively.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2017, Compared to

Three and Nine Months Ended September 30, 2016

For purposes of this report, unless the context otherwise requires, all references herein to "UPC", "Corporation", "Company", "we", "us", and "our" shall mean Union Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which we separately refer to as "UPRR" or the "Railroad".

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and applicable notes to the Condensed Consolidated Financial Statements, Item 1, and other information included in this report. 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 (GAAP).

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable business segment. Although we provide and analyze revenue by commodity group, we treat the financial results of the Railroad as one segment due to the integrated nature of our rail network.

Available Information

Our Internet website is [www.up.com](http://www.up.com). We make available free of charge on our website (under the "Investors" caption link) our Annual Reports on Form 10-K; our Quarterly Reports on Form 10-Q; eXtensible Business Reporting Language (XBRL) documents; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to any such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such

material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC's Internet site at [www.sec.gov](http://www.sec.gov). We provide these previously filed reports as a convenience and their contents reflect only information that was true and correct as of the date of the report. We assume no obligation to update this historical information. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are available on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the New York Stock Exchange or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Corporate Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

References to our website address in this report, including references in Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 2, are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

#### Critical Accounting Policies and Estimates

We base our discussion and analysis of our financial condition and results of operations upon our Condensed Consolidated Financial Statements. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ materially from actual results, the impact on the Condensed Consolidated Financial Statements may be material. Our critical accounting policies are available in Item 7 of our 2016 Annual Report on Form 10-



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K. There have not been any significant changes with respect to these policies during the first nine months of 2017.

RESULTS OF OPERATIONS

Quarterly Summary

We reported earnings of \$1.50 per diluted share on net income of \$1.2 billion in the third quarter of 2017 compared to earnings of \$1.36 per diluted share on net income of \$1.1 billion for the third quarter of 2016. Freight revenues increased 4%, or \$213 million, in the third quarter compared to the same period in 2016. A 5% increase in average revenue per car (ARC) resulting from mix of traffic, core pricing gains, and higher fuel surcharge revenue drove the freight revenue growth and more than offset the 1% decline in volume levels. Growth in shale drilling-related frac sand, steel, and fertilizer shipments was more than offset by declines in crude oil, grain, finished vehicles, and a number of chemical and industrial product commodities impacted by disruptions in the Southern region caused by Hurricane Harvey.

Disruptions from the hurricane negatively impacted earnings by approximately \$0.04 per diluted share, which consists of lost revenue and additional operating expenses. Despite the hurricane impact, we continued to align critical resources with current market demands. While volumes declined 1%, our work force levels decreased 2%, demonstrating continued progress on our resource productivity initiatives. At the end of the third quarter, approximately 800 employees across all crafts were either furloughed or in alternate work status, and approximately 1,000 locomotives were in storage.

As reported to the Association of American Railroads (AAR) in the third quarter 2017, average train speed decreased 2% to 25.4 miles per hour compared to the same period of 2016, largely due to hurricane-related disruptions on our network. Continued implementation and testing of Positive Train Control across a larger portion of our network also negatively impacted overall average train speed. Average terminal dwell time increased 7% to 30.0 hours in the third quarter of 2017 compared to the same period of 2016 as a result of disruptions that negatively impacted network fluidity.

In addition, as referenced in Note 3 to the Condensed Consolidated Financial Statements, our third quarter results reflect the impact of our workforce reduction plan, which includes a pre-tax charge of \$84 million.

Operating Revenues

Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Freight revenues	\$ 5,050	\$ 4,837	4 %	\$ 14,750	\$ 13,769	7 %
Other revenues	358	337	6	1,040	1,004	4
Total	\$ 5,408	\$ 5,174	5 %	\$ 15,790	\$ 14,773	7 %

We generate freight revenues by transporting freight or other materials from our six commodity groups. Freight revenues vary with volume (carloads) and ARC. Changes in price, traffic mix and fuel surcharges drive ARC. We provide some of our customers with contractual incentives for meeting or exceeding specified cumulative volumes or shipping to and from specific locations, which we record as reductions to freight revenues based on the actual or projected future shipments. We recognize freight revenues as shipments move from origin to destination. We allocate freight revenues between reporting periods based on the relative transit time in each reporting period and recognize expenses as we incur them.

Other revenues include revenues earned by our subsidiaries, revenues from commuter rail operations that we manage, accessorial revenues, which we earn when customers retain equipment owned or controlled by us or when we perform additional services such as switching or storage, and miscellaneous contract revenue. We recognize other revenues as we perform services or meet contractual obligations.

Freight revenues increased 4% during the third quarter of 2017 compared to 2016 resulting from mix of traffic, core pricing gains, and higher fuel surcharge revenue, which more than offset the 1% decline in volume levels. Year-to-date, freight revenues increased 7% compared to 2016 resulting from mix of traffic, volume growth, core pricing gains, and higher fuel surcharge revenue.

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Each of our commodity groups includes revenue from fuel surcharges. Freight revenues from fuel surcharge programs were \$227 million and \$673 million in the third quarter and year-to-date periods of 2017 compared to \$173 million and \$373 million in the same periods of 2016. Higher fuel surcharge revenue resulted from higher year-over-year fuel prices, partially offset by a lag headwind in fuel surcharge recovery due to the sequential increase in fuel price during the third quarter (it can generally take up to two months for changing fuel prices to affect fuel surcharge recoveries).

Other revenues increased in the third quarter and year-to-date periods of 2017 compared to 2016 due to higher subsidiary revenues, primarily those that broker intermodal and automotive services.

The following tables summarize the year-over-year changes in freight revenues, revenue carloads, and ARC by commodity type:

Freight Revenues Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Agricultural Products	\$ 914	\$ 937	(2) %	\$ 2,763	\$ 2,664	4 %
Automotive	469	485	(3)	1,486	1,483	-
Chemicals	896	875	2	2,679	2,617	2
Coal	711	728	(2)	1,978	1,741	14
Industrial Products	1,079	855	26	3,016	2,519	20
Intermodal	981	957	3	2,828	2,745	3
Total	\$ 5,050	\$ 4,837	4 %	\$ 14,750	\$ 13,769	7 %

Revenue Carloads Thousands,	Three Months Ended September			Nine Months Ended September		
	2017	2016	Change	2017	2016	Change
Agricultural Products	232	258	(10) %	719	722	- %
Automotive	200	210	(5)	627	644	(3)
Chemicals	259	274	(5)	785	817	(4)
Coal	331	341	(3)	920	846	9

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Industrial Products	325	283	15		918	832	10
Intermodal [a]	841	838	-		2,452	2,435	1
Total	2,188	2,204	(1)	%	6,421	6,296	2 %

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Average Revenue per Car						
Agricultural Products	\$ 3,951	\$ 3,637	9 %	\$ 3,844	\$ 3,691	4 %
Automotive	2,341	2,310	1	2,370	2,302	3
Chemicals	3,457	3,201	8	3,412	3,206	6
Coal	2,143	2,134	-	2,150	2,057	5
Industrial Products	3,325	3,019	10	3,287	3,028	9
Intermodal [a]	1,166	1,141	2	1,153	1,127	2
Average	\$ 2,307	\$ 2,195	5 %	\$ 2,297	\$ 2,187	5 %

[a]Each intermodal container or trailer equals one carload.

Agricultural Products – Freight revenue from agricultural products shipments decreased 2% in the third quarter of 2017 compared to 2016 due to a 10% decrease in volume, partially offset by core pricing gains, mix of traffic, and higher fuel surcharge revenue. Grain shipments declined 17% in the third quarter compared to 2016 due to a strong South American crop that displaced a portion of domestic exports. For the year-to-date period, freight revenue increased 4% driven by core pricing gains and higher fuel surcharge revenue. Volumes were flat for the year-to-date period as third quarter declines offset growth in the first half of the year driven by strong export demand for wheat.

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Automotive – Freight revenue from automotive shipments in the third quarter decreased 3%, and was flat for the year-to-date period of 2017 compared to 2016. Volume declined in both periods, but was more pronounced in the third quarter compared to 2016. Conversely, higher fuel surcharge revenue and core pricing gains partially offset the lower volumes and negative mix in traffic in both periods. Finished vehicle shipments decreased 9% and 7% in the third quarter and year-to-date periods respectively, resulting from lower domestic sales and reduced vehicle production for certain manufacturers. Automotive parts shipments were flat in the third quarter but grew 2% in the year-to-date period driven by continued growth in truck-to-rail conversions.

Chemicals – Freight revenue from chemical shipments increased 2% in both the third quarter and year-to-date periods of 2017 compared to 2016 primarily due to mix of traffic, core pricing gains and higher fuel surcharge revenue, partially offset by volume declines of 5% and 4% in those same periods. Petroleum shipments declined 20% and 27% respectively, resulting from continued declines in crude oil volumes impacted by low crude oil prices and available pipeline capacity. In addition, plastics and industrial chemical shipments were negatively impacted by disruptions caused by the hurricane, both declining 6% during the third quarter versus 2016. These decreases were partially offset by growth in export fertilizer shipments in both periods compared to 2016.

Coal – Freight revenue from coal shipments decreased 2% in the third quarter of 2017 compared to 2016 due to lower volume resulting from utility outages and more moderate summer weather conditions, partially offset by mix of traffic and higher fuel surcharge revenue. Year-to-date, freight revenue increased 14% compared to 2016 driven by strong volume growth in the first half of the year due to higher year-over-year natural gas prices and lower inventory levels at utilities. Shipments out of the Powder River Basin (PRB) decreased 4% in the third quarter, but grew 8% for the year-to-date period compared to 2016. Shipments out of Colorado and Utah increased 5% and 10% in the third quarter and year-to-date periods respectively, compared to 2016 driven by stronger export demand to Asia and Europe.

Industrial Products – Freight revenue from industrial products shipments increased 26% and 20% respectively, compared to the third quarter and year-to-date periods of 2016 as a result of volume growth, mix of traffic, core pricing gains, and higher fuel surcharge revenue. Increased shale drilling activity and proppant intensity per drilling well drove substantial volume growth in frac sand shipments in both periods compared to 2016. Conversely, rock shipments for both periods declined versus 2016 due to inclement weather in the West in the first half of the year, combined with the hurricane impact and decreased construction activity in South Texas.

Intermodal – Freight revenue from intermodal shipments increased 3% compared to the third quarter and nine-month periods of 2016 due to higher fuel surcharge revenue and slight volume gains. International shipments grew 1% in both periods compared to 2016 driven by increased westbound backhaul shipments. Domestic shipments decreased 1% in the third quarter but were flat in the nine-month period compared to 2016 due to available truck capacity.

Mexico Business – Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business decreased 2% to \$555 million in the third quarter of 2017 compared to 2016 primarily due to a 3% decline in volume resulting from lower grain and auto parts shipments. Core pricing gains and higher fuel surcharge revenue partially offset the reduced volume levels. For the nine-month period, freight revenue increased 3% to \$1,697 million compared to 2016 driven by fuel surcharge revenue and core pricing gains, partially offset by a 1% decline in volume levels.

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## Operating Expenses

Millions	Three Months			Nine Months		
	Ended			Ended		
	September 30,			September 30,		
	2017	2016	Change	2017	2016	Change
Compensation and benefits	\$ 1,298	\$ 1,191	9 %	\$ 3,752	\$ 3,564	5 %
Purchased services and materials	615	566	9	1,778	1,705	4
Depreciation	528	512	3	1,573	1,518	4
Fuel	450	392	15	1,344	1,058	27
Equipment and other rents	275	282	(2)	824	857	(4)
Other	230	271	(15)	709	764	(7)
Total	\$ 3,396	\$ 3,214	6 %	\$ 9,980	\$ 9,466	5 %

Operating expenses increased \$182 million and \$514 million in the third quarter and year-to-date periods, respectively, compared to 2016 due to expenses related to the third quarter workforce reduction plan, higher fuel prices, contract services, inflation, hurricane-related costs, and depreciation. In addition, volume-related costs also contributed to the increase in year-to-date expenses compared to 2016. Continued productivity gains, lower state and local taxes, and other expenses partially offset these increases in both periods.

**Compensation and Benefits** – Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. For the third quarter and year-to-date periods, expenses increased 9% and 5% compared to 2016. Expenses associated with the workforce reduction plan and wage and benefit inflation drove the increases, which were partially offset by resource productivity gains. Volume-related costs also contributed to the year-to-date increase in expenses compared to 2016.

**Purchased Services and Materials** – Expense for purchased services and materials includes the costs of services purchased from outside contractors and other service providers (including equipment maintenance and contract expenses incurred by our subsidiaries for external transportation services); materials used to maintain the Railroad's lines, structures, and equipment; costs of operating facilities jointly used by UPRR and other railroads; transportation and lodging for train crew employees; trucking and contracting costs for intermodal containers; leased automobile maintenance expenses; and tools and supplies. Purchased services and materials increased 9% in the third quarter and 4% in the year-to-date period of 2017 compared to the same periods of 2016. Volume-related costs (including higher subsidiary contract services), hurricane-related contract services costs, and higher freight car repair expense for leased car expirations drove the increases. Lower joint facility expenses and lower locomotive maintenance expense partially offset the higher expenses for the nine-month period compared to 2016.

Depreciation – The majority of depreciation relates to road property, including rail, ties, ballast, and other track material. A higher depreciable asset base, reflecting recent years' higher capital spending, increased depreciation expense in the third quarter and year-to-date periods of 2017 compared to 2016. These increases were partially offset by our recent depreciation studies that resulted in lower depreciation rates for certain asset classes.

Fuel – Fuel includes locomotive fuel and fuel for highway and non-highway vehicles and heavy equipment. Locomotive diesel fuel prices, which averaged \$1.77 per gallon (including taxes and transportation costs) in the third quarter of 2017, compared to \$1.57 per gallon in the same period in 2016, increased expenses by \$50 million. In addition, fuel costs were higher as gross ton-miles increased 2% compared to the same period in 2016. The fuel consumption rate (c-rate), computed as gallons of fuel consumed divided by gross ton-miles in thousands, improved 1% compared to the third quarter of 2016. For the nine-month period, locomotive diesel fuel prices averaged \$1.74 per gallon in 2017 compared to \$1.42 in 2016, increasing expenses by \$236 million.

Equipment and Other Rents – Equipment and other rents expense primarily includes rental expense that the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; and office and other rentals. Equipment and other rents expense decreased 2% and 4%, respectively, compared to the same periods in 2016, mainly driven by lower locomotive and freight



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car lease expense (less equipment under lease). Increased car rent expense due to volume growth in certain markets partially offset these decreases in both periods.

Other – Other expenses include state and local taxes; freight, equipment and property damage; utilities, insurance, personal injury, environmental, employee travel, telephone and cellular, computer software, bad debt and other general expenses. Other costs decreased 15% in the third quarter and 7% in the nine-month period compared to 2016 due to lower state and local taxes, lower environmental expense, and higher bad debt expense in 2016 resulting from a customer bankruptcy. Conversely, increased costs associated with destroyed equipment owned by third parties and higher personal injury expense partially offset these decreases in both periods compared to 2016.

## Non-Operating Items

Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change F %	2017	2016	Change F %
Other income	\$ 151	\$ 29	F %	\$ 261	\$ 152	72 %
Interest expense	(180)	(184)	(2)	(531)	(524)	1
Income taxes	(789)	(674)	17	(2,106)	(1,846)	14

Other Income – Other income increased in the third quarter of 2017 as a result of a \$65 million gain on a litigation settlement for back rent and a \$57 million real estate sale gain, both recognized in the third quarter of 2017. Year-to-date, other income increased as a result of higher gains on real estate sales and increased rental income compared to 2016.

Interest Expense – Interest expense decreased in the third quarter of 2017 compared to 2016 due to \$8 million of debt exchange costs recognized in 2016, partially offset by an increased weighted-average debt level of \$16.0 billion in 2017 compared to \$15.4 billion in 2016. The effective interest rate was 4.5% and 4.7% in the third quarter of 2017 and 2016, respectively. Year-to-date, interest expense increased due to an increased weighted-average debt level of \$15.6 billion in 2017 from \$15.0 billion in 2016, partially offset by a lower effective interest rate of 4.6% compared to 4.7%.

Income Taxes – Income taxes were higher in the third quarter and year-to-date periods of 2017 compared to 2016, resulting from higher pre-tax income and an increase in the State of Illinois corporate income tax rate effective July 1,

2017, increasing our tax expense by \$33 million in the third quarter of 2017. Our effective tax rates for the third quarter of 2017 and 2016 were 39.8% and 37.3%, respectively. For the nine-month periods of 2017 and 2016, our effective tax rates were 38.0% and 37.4%, respectively.

## OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report a number of key performance measures weekly to the AAR. We provide this data on our website at [www.up.com/investor/aar-stb\\_reports/index.htm](http://www.up.com/investor/aar-stb_reports/index.htm).

### Operating/Performance Statistics

Railroad performance measures are included in the table below:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Average train speed (miles per hour)	25.4	26.0	(2) %	25.5	26.6	(4) %
Average terminal dwell time (hours)	30.0	28.0	7 %	29.6	27.9	6 %
Gross ton-miles (billions)	229.8	224.6	2 %	671.5	633.1	6 %
Revenue ton-miles (billions)	119.0	117.5	1 %	347.9	325.0	7 %
Operating ratio	62.8	62.1	0.7 pts	63.2	64.1	(0.9)pts
Employees (average)	42,056	42,756	(2) %	42,127	43,154	(2) %

Average Train Speed – Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Average train speed, as reported to the AAR, decreased 2% and 4% in the third quarter and year-to-date periods of 2017, respectively, compared to the same periods in 2016 as

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disruptions across our network, including the impact of the hurricane, negatively impacted network fluidity.

Continued implementation and testing of Positive Train Control across a larger portion of our network also negatively impacted overall average train speed.

**Average Terminal Dwell Time** – Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time improves asset utilization and service. Average terminal dwell time in the third quarter and year-to-date periods of 2017 increased 7% and 6%, respectively, compared to the same periods of 2016 resulting from network disruptions which negatively impacted network fluidity.

**Gross and Revenue Ton-Miles** – Gross ton-miles are calculated by multiplying the weight of loaded and empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. Gross ton-miles and revenue ton-miles increased 2% and 1%, respectively, during the third quarter of 2017 compared to 2016, despite a 1% decrease in carloadings. Changes in commodity mix drove the variances in year-over-year increases between gross ton-miles, revenue ton-miles and carloads.

**Operating Ratio** – Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our third quarter operating ratio of 62.8% increased 0.7 points mainly driven by costs associated with the workforce reduction plan, which had a negative 1.6 point impact on our third quarter operating ratio. Base business operations and productivity gains more than offset inflation, other cost hurdles and additional expenses related to the hurricane.

Year-to-date, our operating ratio was 63.2%, improving 0.9 points compared to 2016, despite a negative 0.5 point headwind resulting from the workforce reduction plan.

**Employees** – Employee levels decreased 2% in both the third quarter and nine-month periods of 2017 compared to the same periods in 2016. Productivity gains, a smaller capital workforce, and fewer management and administrative personnel drove the reduction and, for the year-to-date period, more than offset the 2% volume growth.

## Debt to Capital / Adjusted Debt to Capital

	Sep. 30,	Dec. 31,
Millions, Except Percentages	2017	2016
Debt (a)	\$ 16,833	\$ 15,007
Equity	19,151	19,932
Capital (b)	\$ 35,984	\$ 34,939

Debt to capital (a/b) 46.8% 43.0%

Millions, Except Percentages	Sep. 30, 2017	Dec. 31, 2016
Debt	\$ 16,833	\$ 15,007
Net present value of operating leases	2,186	2,435
Unfunded pension and OPEB, net of taxes of \$256 and \$261	417	436
Adjusted debt (a)	19,436	17,878
Equity	19,151	19,932
Adjusted capital (b)	\$ 38,587	\$ 37,810
Adjusted debt to capital (a/b)	50.4%	47.3%

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K, and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating the total amount of leverage in our capital structure, including off-balance sheet lease obligations, which we generally incur in connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating leases were discounted using 4.6% at September 30, 2017, and 4.7% at December 31, 2016. The discount rate reflects our year-to-date effective interest rate. We monitor the ratio of adjusted debt to capital as we manage our capital structure to balance cost-effective and efficient access to the capital markets with the Corporation's overall cost of capital. Adjusted debt to capital should be considered in addition to, rather than as a

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substitute for, debt to capital. The tables above provide reconciliations from debt to capital to adjusted debt to capital.

## LIQUIDITY AND CAPITAL RESOURCES

## Financial Condition

## Cash Flows

Millions,

for the Nine Months Ended September 30,	2017	2016
Cash provided by operating activities	\$ 5,398	\$ 5,467
Cash used in investing activities	(2,260)	(2,819)
Cash used in financing activities	(2,568)	(2,130)
Net change in cash and cash equivalents	\$ 570	\$ 518

## Operating Activities

In the first nine months of 2017, cash provided by operating activities decreased compared to the same period of 2016 due to the timing of tax payments in 2016 related to bonus depreciation on capital spending. The decrease was mostly offset by higher income in the first nine months of 2017 compared to 2016.

## Investing Activities

A reduction in purchased short-term investments and capital investments lowered cash used in investing activities in the first nine months of 2017 compared to the same period in 2016.

The table below details cash capital investments:

Millions, for the Nine Months Ended September 30,	2017	2016
Rail and other track material	\$ 482	\$ 486
Ties	371	397
Ballast	178	184
Other [a]	342	345
Total road infrastructure replacements	1,373	1,412
Line expansion and other capacity projects	57	104
Commercial facilities	119	111
Total capacity and commercial facilities	176	215
Locomotives and freight cars [b]	430	638
Positive train control	262	263
Technology and other	138	76
Total cash capital investments	\$ 2,379	\$ 2,604

[a]Other includes bridges and tunnels, signals, other road assets, and road work equipment.

[b]Locomotives and freight cars include lease buyouts of \$173 million in 2017 and \$70 million in 2016.

#### Capital Plan

As previously stated, we expect our 2017 capital plan to be approximately \$3.1 billion, which may be revised if business conditions or the regulatory environment affect our ability to generate sufficient returns on these investments.

#### Financing Activities

Cash used in financing activities increased \$438 million in the first nine months of 2017 compared to the same period of 2016 driven by a \$782 million increase in shares repurchased, partially offset by a \$402 million increase in debt issued.

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See Note 15 of the Condensed Consolidated Financial Statements for a description of all our outstanding financing arrangements and significant new borrowings.

Free Cash Flow – Free cash flow is defined as cash provided by operating activities less cash used in investing activities and dividends paid.

Free cash flow is not considered a financial measure under GAAP by SEC Regulation G and Item 10 of SEC Regulation S-K and may not be defined and calculated by other companies in the same manner. We believe free cash flow is important to management and investors in evaluating our financial performance and measures our ability to generate cash without additional external financing. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities. The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure):

Millions, for the Nine Months Ended September 30,	2017	2016
Cash provided by operating activities	\$ 5,398	\$ 5,467
Cash used in investing activities	(2,260)	(2,819)
Dividends paid	(1,460)	(1,382)
Free cash flow	\$ 1,678	\$ 1,266

## Share Repurchase Program

Effective January 1, 2017, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2020, replacing our previous repurchase program. As of September 30, 2017, we repurchased a total of \$22.1 billion of our common stock since the commencement of our repurchase programs in 2007. The table below represents shares repurchased in 2017 under our new repurchase program, and shares repurchased in 2016 under our previous repurchase program.

	Number of Shares Purchased		Average Price Paid	
	2017	2016	2017	2016
First quarter	7,531,300	9,315,807	\$ 106.55	\$ 76.49

Second quarter	7,788,283	7,026,100	109.10	85.66
Third quarter	11,801,755	9,088,613	106.69	93.63
Total	27,121,338	25,430,520	\$ 107.34	\$ 85.15
Remaining number of shares that may be repurchased under current authority			92,878,662	

Management's assessments of market conditions and other pertinent factors guide the timing and volume of all repurchases. We expect to fund any share repurchases under this program through cash generated from operations, the sale or lease of various operating and non-operating properties, debt issuances, and cash on hand. Repurchased shares are recorded in treasury stock at cost, which includes any applicable commissions and fees.

From October 1, 2017, through October 25, 2017, we repurchased 3.15 million shares at an aggregate cost of approximately \$356 million.

#### Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial Commitments

As described in the notes to the Condensed Consolidated Financial Statements and as referenced in the tables below, we have contractual obligations and commercial commitments that may affect our financial condition. However, based on our assessment of the underlying provisions and circumstances of our contractual obligations and commercial commitments, including material sources of off-balance sheet and structured finance arrangements, there is no known trend, demand, commitment, event, or uncertainty that is reasonably likely to occur that would have a material adverse effect on our consolidated results of operations, financial condition, or liquidity. In addition, our commercial obligations, financings, and commitments are customary transactions that are similar to those of other comparable corporations, particularly within the transportation industry.



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The following tables identify material obligations and commitments as of September 30, 2017:

Contractual Obligations Millions	Total	Oct. 1 Payments Due by Dec. 31, through					After	
		Dec. 31, 2017	2018	2019	2020	2021	2021	Other
Debt [a]	\$ 29,002	\$ 384	\$ 1,274	\$ 1,314	\$ 1,473	\$ 1,098	\$ 23,459	\$ -
Operating leases [b]	2,699	68	395	357	294	257	1,328	-
Capital lease obligations [c]	1,068	18	170	156	165	142	417	-
Purchase obligations [d]	3,330	811	1,440	383	311	246	107	32
Other postretirement benefits [e]	430	12	47	47	47	47	230	-
Income tax contingencies [f]	170	-	12	-	-	-	-	158
Total contractual obligations	\$ 36,699	\$ 1,293	\$ 3,338	\$ 2,257	\$ 2,290	\$ 1,790	\$ 25,541	\$ 190

[a]Excludes capital lease obligations of \$884 million, as well as unamortized discount and deferred issuance costs of (\$897) million. Includes an interest component of \$12,156 million.

[b] Includes leases for locomotives, freight cars, other equipment, and real estate.

[c]Represents total obligations, including interest component of \$184 million.

[d]Purchase obligations include locomotive maintenance contracts; purchase commitments for fuel purchases, locomotives, ties, ballast, and rail; and agreements to purchase other goods and services. For amounts where we cannot reasonably estimate the year of settlement, they are included in the Other column.

[e]Includes estimated other postretirement, medical, and life insurance payments and payments made under the unfunded pension plan for the next ten years.

[f]Future cash flows for income tax contingencies reflect the recorded liabilities and assets for unrecognized tax benefits, including any interest or penalties, as of September 30, 2017. For amounts where the year of settlement is uncertain, they are included in the Other column.

Other Commercial Commitments Millions	Total	Amount of Commitment Expiration by Dec. 31, through					After	
		Oct. 1 Dec. 31, 2017	2018	2019	2020	2021	2021	
Credit facilities [a]	\$ 1,700	\$ -	\$ -	\$ 1,700	\$ -	\$ -	\$ -	\$ -

Receivables securitization facility	650	-	-	650	-	-	-
[b]							
Guarantees [c]	33	-	11	7	5	5	5
Standby letters of credit [d]	20	7	13	-	-	-	-
Total commercial commitments	\$ 2,403	\$ 7	\$ 24	\$ 2,357	\$ 5	\$ 5	\$ 5

[a] None of the credit facility was used as of September 30, 2017.

[b] \$200 million of the receivables securitization facility was utilized as of September 30, 2017, which is accounted for as debt. The full program matures in July 2019.

[c] Includes guaranteed obligations related to our affiliated operations.

[d] None of the letters of credit were drawn upon as of September 30, 2017.

## OTHER MATTERS

**Asserted and Unasserted Claims** – Various claims and lawsuits are pending against us and certain of our subsidiaries. We cannot fully determine the effect of all asserted and unasserted claims on our consolidated results of operations, financial condition, or liquidity. To the extent possible, we have recorded a liability where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities and insurance recoveries previously recorded for these matters.

**Indemnities** – We are contingently obligated under a variety of indemnification arrangements, although in some cases the extent of our potential liability is limited, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability

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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.

Accounting Pronouncements – See Note 2 to the Condensed Consolidated Financial Statements.

Labor Agreements - The U.S. Class I railroads have been in collective bargaining with rail labor unions since January 2015. On October 5, 2017, six rail unions making up the Coordinated Bargaining Group (CBG) reached a Tentative National Agreement with the railroads, which would be effective January 1, 2015 through December 31, 2019. Collectively, the CBG represents nearly 60% of U.S. railroad employees in collective bargaining.

CAUTIONARY INFORMATION

Certain statements in this report, and statements in other reports or information filed or to be filed with the SEC (as well as information included in oral statements or other written statements made or to be made by us), are, or will be, forward-looking statements as defined by the Securities Act of 1933 and the Exchange Act. These forward-looking statements and information include, without limitation, the statements and information set forth under the caption “Liquidity and Capital Resources” in Item 2 regarding our capital plan and statements under the caption “Off-Balance Sheet Arrangements, Contractual Obligations, and Commercial Commitments.” Forward-looking statements and information also include any other statements or information in this report regarding: expectations as to operational or service improvements; expectations regarding the effectiveness of steps taken or to be taken to improve operations, service, infrastructure improvements, and transportation plan modifications; expectations as to cost savings, revenue growth, and earnings; the time by which goals, targets, or objectives will be achieved; projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, future economic performance, and general economic conditions; proposed new products and services; estimates of costs relating to environmental remediation and restoration; estimates and expectations regarding tax matters, expectations that claims, litigation, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated results of operations, financial condition, or liquidity and any other similar expressions concerning matters that are not historical facts.

Forward-looking statements and information reflect the good faith consideration by management of currently available information, and may be based on underlying assumptions believed to be reasonable under the circumstances. However, such information and assumptions (and, therefore, such forward-looking statements and information) are or may be subject to variables or unknown or unforeseeable events or circumstances over which management has little or no influence or control. The Risk Factors in Item 1A of our 2016 Annual Report on Form 10-K, filed February 3, 2017, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements, and this report, including this Item 2, should be read in conjunction with these Risk Factors. To the extent circumstances require or we deem it otherwise

necessary, we will update or amend these risk factors in a Form 10-Q or Form 8-K. Information regarding new risk factors or material changes to our risk factors, if any, is set forth in Item 1A of Part II of this report. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes to the Quantitative and Qualitative Disclosures About Market Risk previously disclosed in our 2016 Annual Report on Form 10-K.

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Item 4. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer (CEO) and Executive Vice President and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based upon that evaluation, the CEO and the CFO concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Additionally, the CEO and CFO determined that there were no changes to the Corporation's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in legal proceedings, claims, and litigation that occur in connection with our business. We routinely assess our liabilities and contingencies in connection with these matters based upon the latest available information and, when necessary, we seek input from our third-party advisors when making these assessments. Consistent with SEC rules and requirements, we describe below material pending legal proceedings (other than ordinary routine litigation incidental to our business), material proceedings known to be contemplated by governmental authorities, other proceedings arising under federal, state, or local environmental laws and regulations (including governmental proceedings involving potential fines, penalties, or other monetary sanctions in excess of \$100,000), and such other pending matters that we may determine to be appropriate.

Environmental Matters

On January 21, 2016, California Air Resources Board (CARB) sent UPRR a notice of violation alleging that it had failed to report all information required by the Drayage Truck Rule. The CARB Drayage Truck Rule requires UPRR, as an operator of an intermodal railyard, to submit quarterly reports with detailed information, such as the vehicle identification number, about all trucks entering its intermodal railyard that are not compliant with the rule. UPRR reached an agreement resolving the notice of violation, which includes that payment of a fine of \$525,000. UPRR executed the settlement agreement and paid the fine on August 15, 2017.

We receive notices from the EPA and state environmental agencies alleging that we are or may be liable under federal or state environmental laws for remediation costs at various sites throughout the U.S., including sites on the Superfund National Priorities List or state superfund lists. We cannot predict the ultimate impact of these proceedings and suits because of the number of potentially responsible parties involved, 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.

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Environmental, Item 7 of our 2016 Annual Report on Form 10-K.

#### Other Matters

Antitrust Litigation - As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 20 rail shippers (many of whom are represented by the same law firms) filed virtually identical antitrust

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lawsuits in various federal district courts against us and four other Class I railroads in the U.S. Currently, UPRR and three other Class I railroads are the named defendants in the lawsuit. The original plaintiff filed the first of these claims in the U.S. District Court in New Jersey on May 14, 2007. The number of complaints reached a total of 30. These suits allege that the named railroads engaged in pricefixing by establishing common fuel surcharges for certain rail traffic.

In addition to suits filed by direct purchasers of rail transportation services, a few of the suits involved plaintiffs alleging that they are or were indirect purchasers of rail transportation and sought to represent a purported class of indirect purchasers of rail transportation services that paid fuel surcharges. These complaints added allegations under state antitrust and consumer protection laws. On November 6, 2007, the Judicial Panel on Multidistrict Litigation ordered that all of the rail fuel surcharge cases be transferred to Judge Paul Friedman of the U.S. District Court in the District of Columbia for coordinated or consolidated pretrial proceedings. Following numerous hearings and rulings, Judge Friedman dismissed the complaints of the indirect purchasers, which the indirect purchasers appealed. On April 16, 2010, the U.S. Court of Appeals for the District of Columbia affirmed Judge Friedman's ruling dismissing the indirect purchasers' claims based on various state laws.

On June 21, 2012, Judge Friedman issued a decision that certified a class of plaintiffs with eight named plaintiff representatives. The decision included in the class all shippers that paid a rate-based fuel surcharge to any one of the defendant railroads for rate-unregulated rail transportation from July 1, 2003, through December 31, 2008. On July 5, 2012, the defendant railroads filed a petition with the U.S. Court of Appeals for the District of Columbia requesting that the court review the class certification ruling. On August 9, 2013, the Circuit Court vacated the class certification decision and remanded the case to the district court to reconsider the class certification decision in light of a recent Supreme Court case and incomplete consideration of errors in the expert report of the plaintiffs. On October 31, 2013, Judge Friedman approved a schedule agreed to by all parties for consideration of the class certification issue on remand. After reviewing an intervening case, supplemental expert materials and related briefing from the parties, Judge Friedman scheduled and completed a new class certification hearing during the week of September 26, 2016. On October 10, 2017, the parties received a ruling from Judge Friedman denying class certification.

As we reported in our Current Report on Form 8-K, filed on June 10, 2011, the Railroad received a complaint filed in the U.S. District Court for the District of Columbia on June 7, 2011, by Oxbow Carbon & Minerals LLC and related entities (Oxbow). The parties are currently conducting discovery in this matter. For additional information on Oxbow, please refer to Item 3. Legal Proceedings, under Other Matters, Antitrust Litigation in our most recently filed Annual Report on Form 10-K for the year ended December 31, 2016.

We continue to deny the allegations that our fuel surcharge programs violate the antitrust laws or any other laws. We believe that these lawsuits are without merit, and we will vigorously defend our actions. Therefore, we currently believe that these matters will not have a material adverse effect on any of our results of operations, financial condition, and liquidity.

Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our 2016 Annual Report on Form 10-K.



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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities – The following table presents common stock repurchases during each month for the third quarter of 2017:

Period	Total Number of Shares Purchased [a]	Average Price Paid Per Share or Program [b]	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares That May Be Purchased Under Current Authority [b]
Jul. 1 through Jul. 31	3,033,053	\$ 106.34	3,031,855	101,648,562
Aug. 1 through Aug. 31	5,285,956	104.10	5,285,900	96,362,662
Sep. 1 through Sep. 30	3,491,195	110.93	3,484,000	92,878,662
Total	11,810,204	\$ 106.69	11,801,755	N/A

[a] Total number of shares purchased during the quarter includes 8,449 shares delivered or attested to UPC by employees to pay stock option exercise prices, satisfy excess tax withholding obligations for stock option exercises or vesting of retention units, and pay withholding obligations for vesting of retention shares.

[b] Effective January 1, 2017, our Board of Directors authorized the repurchase of up to 120 million shares of our common stock by December 31, 2020, replacing our previous repurchase program. These repurchases may be made on the open market or through other transactions. Our management has sole discretion with respect to determining the timing and amount of these transactions.

Dividend Restrictions – Our revolving credit facility includes a debt-to-net worth covenant (discussed in Note 15 of the Condensed Consolidated Financial Statements) that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was \$10.7 billion and \$12.4 billion at September 30, 2017, and December 31, 2016, respectively.

## Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
10	<u>Supplemental Pension Plan (409A Non-Grandfathered Component) for Officers and Managers of Union Pacific Corporation and Affiliates, as amended and restated in its entirety effective as of January 1, 1989, including all amendments adopted through September 30, 2017.</u>
12(a)	<u>Ratio of Earnings to Fixed Charges for the Three Months Ended September 30, 2017 and 2016.</u>
12(b)	<u>Ratio of Earnings to Fixed Charges for the Nine Months Ended September 30, 2017 and 2016.</u>
31(a)	<u>Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to</u>

- 31(b) Section 302 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz.  
Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert M. Knight, Jr.
- 32 Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Lance M. Fritz and Robert M. Knight, Jr.
- 101 eXtensible Business Reporting Language (XBRL) documents submitted electronically:  
101.INS (XBRL Instance Document),  
101.SCH (XBRL Taxonomy Extension Schema Document),  
101.CAL (XBRL Calculation Linkbase Document),  
101.LAB (XBRL Taxonomy Label Linkbase Document),  
101.DEF (XBRL Taxonomy Definition Linkbase Document) and  
101.PRE (XBRL Taxonomy Presentation)

Linkbase Document). The following financial and related information from Union Pacific Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2017 (filed with the SEC on October 26, 2017), is formatted in XBRL and submitted electronically herewith: (i) Condensed Consolidated Statements of Income for the periods ended September 30, 2017 and 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the periods ended September 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Financial Position at September 30, 2017 and December 31, 2016, (iv) Condensed Consolidated Statements of Cash Flows for the periods ended September 30, 2017 and 2016, (v) Condensed Consolidated Statements of Changes in

Common  
Shareholders' Equity  
for the periods  
ended September  
30, 2017 and 2016,  
and (vi) the Notes  
to the Condensed  
Consolidated  
Financial  
Statements.

Incorporated by Reference

- 3(a) Restated Articles of Incorporation of UPC, as amended and restated through June 27, 2011, and as further amended May 15, 2014, are incorporated herein by reference to Exhibit 3(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.
- 3(b) By-Laws of UPC, as amended, effective November 19, 2015, are incorporated herein by reference to Exhibit 3.2 to the Corporation's Current Report on Form 8-K dated November 19, 2015.
- 4(a) Form of 3.600% Note due 2037 is incorporated by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K dated September 19, 2017.
- 4(b) Form of 4.100% Note due 2067 is incorporated by

reference to Exhibit  
4.2 to the  
Corporation's  
Current Report on  
Form 8-K dated  
September 19,  
2017.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: October 26, 2017

UNION PACIFIC CORPORATION (Registrant)

By /s/ Robert M. Knight, Jr.  
Robert M. Knight, Jr.  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By /s/ Todd M. Rynaski  
Todd M. Rynaski  
Vice President and Controller  
(Principal Accounting Officer)