UNION PACIFIC CORP
Form 10-Q
July 20, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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)

UTAH	**13-2626465**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) 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.

þ 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).

þ 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 þ 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 þ No

As of July 13, 2012, there were 473,607,721 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 June 30,		***2012***		*2011*
Operating revenues:				
Freight revenues	**$**	**4,913**	$	4,595
Other revenues		**308**		263
Total operating revenues		**5,221**		4,858
Operating expenses:				
Compensation and benefits		**1,151**		1,166
Fuel		**882**		904
Purchased services and materials		**542**		516
Depreciation		**433**		401
Equipment and other rents		**299**		283
Other		**190**		196
Total operating expenses		**3,497**		3,466
Operating income		**1,724**		1,392
Other income (Note 6)		**21**		26
Interest expense		**(135)**		(148)
Income before income taxes		**1,610**		1,270
Income taxes		**(608)**		(485)
Net income	**$**	**1,002**	$	785
Share and Per Share (Note 8):				
Earnings per share - basic	**$**	**2.11**	$	1.61
Earnings per share - diluted	**$**	**2.10**	$	1.59
Weighted average number of shares - basic		**473.8**		488.4
Weighted average number of shares - diluted		**477.2**		492.4
Dividends declared per share	**$**	**0.60**	$	0.475

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions,

for the Three Months Ended June 30,		***2012***		*2011*
Net income	**$**	**1,002**	$	785
Other comprehensive income/(loss), net of tax:				
Defined benefit plans		**-**		-
Foreign currency translation		**(15)**		9
Other comprehensive income/(loss), net [a]		**(15)**		9
Comprehensive income	**$**	**987**	$	794

[a] Net of deferred taxes of $(9) million and $5 million during the three months ended June 30, 2012 and 2011, 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 Six Months Ended June 30,		***2012***		*2011*
Operating revenues:				
Freight revenues	**$**	**9,736**	$	8,843
Other revenues		**597**		505
Total operating revenues		**10,333**		9,348
Operating expenses:				
Compensation and benefits		**2,362**		2,333
Fuel		**1,808**		1,730
Purchased services and materials		**1,068**		991
Depreciation		**860**		796
Equipment and other rents		**595**		585
Other		**406**		384
Total operating expenses		**7,099**		6,819
Operating income		**3,234**		2,529
Other income (Note 6)		**37**		41
Interest expense		**(270)**		(289)
Income before income taxes		**3,001**		2,281
Income taxes		**(1,136)**		(857)
Net income	**$**	**1,865**	$	1,424
Share and Per Share (Note 8):				
Earnings per share - basic	**$**	**3.92**	$	2.91
Earnings per share - diluted	**$**	**3.89**	$	2.89
Weighted average number of shares - basic		**475.8**		489.0
Weighted average number of shares - diluted		**479.3**		493.3
Dividends declared per share	**$**	**1.20**	$	0.855

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

Millions,

for the Six Months Ended June 30,	***2012***	*2011*

Net income	**$**	**1,865**	$	1,424
Other comprehensive income/(loss), net of tax:				
Defined benefit plans		**(7)**		1
Foreign currency translation		**-**		14
Other comprehensive income/(loss), net [a]		**(7)**		15
Comprehensive income	**$**	**1,858**	$	1,439

[a] Net of deferred taxes of $(1) million and $9 million during the six months ended June 30, 2012 and 2011, 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	***Jun. 30, 2012***	*Dec. 31, 2011*
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,201**	$ 1,217
Accounts receivable, net (Note 10)	**1,497**	1,401
Materials and supplies	**646**	614
Current deferred income taxes (Note 7)	**324**	306
Other current assets	**288**	189
Total current assets	**3,956**	3,727
Investments	**1,211**	1,175
Net properties (Note 11)	**40,937**	39,934
Other assets	**270**	260
Total assets	**$ 46,374**	$ 45,096
Liabilities and Common Shareholders Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 12)	**$ 3,137**	$ 3,108
Debt due within one year (Note 14)	**780**	209
Total current liabilities	**3,917**	3,317
Debt due after one year (Note 14)	**8,636**	8,697
Deferred income taxes (Note 7)	**12,646**	12,368
Other long-term liabilities	**2,088**	2,136
Commitments and contingencies (Note 16)		
Total liabilities	**27,287**	26,518
Common shareholders equity:		
Common shares, $2.50 par value, 800,000,000 authorized; 554,569,750 and 554,270,763 issued; 473,569,397 and 479,929,530 outstanding, respectively	**1,386**	1,386
Paid-in-surplus	**4,077**	4,031
Retained earnings	**20,802**	19,508
Treasury stock	**(6,117)**	(5,293)
Accumulated other comprehensive loss (Note 9)	**(1,061)**	(1,054)
Total common shareholders equity	**19,087**	18,578

Total liabilities and common shareholders equity	**$ 46,374**	$ 45,096

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 Six Months Ended June 30,	***2012***	*2011*
Operating Activities		
Net income	**$ 1,865**	$ 1,424
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**860**	796
Deferred income taxes and unrecognized tax benefits	**274**	459
Other operating activities, net	**(25)**	(56)
Changes in current assets and liabilities:		
Accounts receivable, net	**(96)**	(243)
Materials and supplies	**(32)**	(96)
Other current assets	**(99)**	95
Accounts payable and other current liabilities	**29**	261
Cash provided by operating activities	**2,776**	2,640
Investing Activities		
Capital investments	**(1,816)**	(1,327)
Proceeds from asset sales	**30**	30
Acquisition of equipment pending financing	**-**	(85)
Proceeds from sale of assets financed	**-**	85
Other investing activities, net	**(96)**	(69)
Cash used in investing activities	**(1,882)**	(1,366)
Financing Activities		
Common share repurchases (Note 17)	**(833)**	(608)
Debt issued (Note 14)	**695**	-
Dividends paid	**(575)**	(374)
Debt repaid	**(193)**	(131)
Debt exchange	**-**	(272)
Other financing activities, net	**(4)**	80
Cash used in financing activities	**(910)**	(1,305)
Net change in cash and cash equivalents	**(16)**	(31)
Cash and cash equivalents at beginning of year	**1,217**	1,086
Cash and cash equivalents at end of period	**$ 1,201**	$ 1,055
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Cash dividends declared but not yet paid	**$ 280**	$ 228
Capital investments accrued but not yet paid	**129**	100
Common shares repurchased but not yet paid	**15**	-
Capital lease financings	**-**	120
Cash paid for:		
Income taxes, net of refunds	**$ (766)**	$ (135)
Interest, net of amounts capitalized	**(267)**	(315)

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, 2011	553.9	(62.3)	$ 1,385	$ 3,985	$ 17,154	$ (4,027)	$ (734)	$ 17,763
Comprehensive income:								
Net income			-	-	1,424	-	-	1,424
Other comp. income			-	-	-	-	15	15
Total comp. income								1,439
Conversion, stock option exercises, forfeitures, and other	0.4	2.1	1	14	-	116	-	131
Share repurchases (Note 17)	-	(6.2)	-	-	-	(608)	-	(608)
Cash dividends declared ($0.855 per share)	-	-	-	-	(419)	-	-	(419)
Balance at June 30, 2011	554.3	(66.4)	$ 1,386	$ 3,999	$ 18,159	$ (4,519)	$ (719)	$ 18,306
Balance at January 1, 2012	554.3	(74.4)	$ 1,386	$ 4,031	$ 19,508	$ (5,293)	$ (1,054)	$ 18,578
Comprehensive income:								
Net income			-	-	1,865	-	-	1,865
Other comp. loss			-	-	-	-	(7)	(7)
Total comp. income								1,858
Conversion, stock option exercises, forfeitures, and other	0.3	1.1	-	46	-	24	-	70
Share repurchases (Note 17)	-	(7.7)	-	-	-	(848)	-	(848)
Cash dividends declared ($1.20 per share)	-	-	-	-	(571)	-	-	(571)
Balance at June 30, 2012	**554.6**	**(81.0)**	**$ 1,386**	**$ 4,077**	**$ 20,802**	**$ (6,117)**	**$ (1,061)**	**$ 19,087**

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (See Note 9)
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 , UPC , we , us , and our mean U 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). Our Consolidated Statement of Financial Position at December 31, 2011, is derived from audited financial statements. This Quarterly Report on Form 10-Q should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2011 Annual Report on Form 10-K. The results of operations for the six months ended June 30, 2012, are not necessarily indicative of the results for the entire year ending December 31, 2012.

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

On January 1, 2012, we adopted 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05) which requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. Also, in December of 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12).

3. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although revenue is analyzed by commodity group, we analyze the net 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:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2012***	*2011*	***2012***	*2011*
Agricultural	**$ 854**	$ 849	**$ 1,712**	$ 1,656
Automotive	**475**	381	**905**	723
Chemicals	**795**	703	**1,563**	1,367
Coal [a]	**869**	950	**1,864**	1,902
Industrial Products	**917**	803	**1,780**	1,493
Intermodal	**1,003**	909	**1,912**	1,702
Total freight revenues	**4,913**	4,595	**9,736**	8,843
Other revenues	**308**	263	**597**	505
Total operating revenues	**$ 5,221**	$ 4,858	**$ 10,333**	$ 9,348

[a] Formerly titled Energy.

Although our revenues are principally derived from customers domiciled in the U.S., the ultimate points of origination or destination for some products transported are outside the U.S.

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4. 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:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2012***	*2011*	***2012***	*2011*
Stock-based compensation, before tax:				
Stock options	**$ 4**	$ 4	**$ 9**	$ 9
Retention awards	**20**	17	**40**	34
Total stock-based compensation, before tax	**$ 24**	$ 21	**$ 49**	$ 43
Excess tax benefits from equity compensation plans	**$ 14**	$ 29	**$ 53**	$ 67

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	***2012***	*2011*
Risk-free interest rate	**0.8%**	2.3%
Dividend yield	**2.1%**	1.6%
Expected life (years)	**5.3**	5.3
Volatility	**36.8%**	35.9%
Weighted-average grant-date fair value of options granted	**$ 31.29**	$ 28.45

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

A summary of stock option activity during the six months ended June 30, 2012 is presented below:

	Options (thous.)	*Weighted-Average Exercise Price*	*Weighted-Average Remaining Contractual Term*	*Aggregate Intrinsic Value (millions)*
Outstanding at January 1, 2012	7,042	$ 52.16	5.5 yrs.	$ 379
Granted	598	114.73	N/A	N/A
Exercised	(1,436)	41.11	N/A	N/A
Forfeited or expired	(30)	69.96	N/A	N/A
Outstanding at June 30, 2012	6,174	$ 60.70	5.7 yrs.	$ 362
	6,117	$ 60.37	5.7 yrs.	$ 361

Vested or expected to vest at June 30, 2012					
Options exercisable at June 30, 2012	4,954	$ 51.45	4.9 yrs.	$	336

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at June 30, 2012 are subject to performance or market-based vesting conditions.

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At June 30, 2012, there was $25 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.5 years. Additional information regarding stock option exercises appears in the table below:

	Three Months Ended		*Six Months Ended*	
	June 30,		*June 30,*	
Millions	***2012***	*2011*	***2012***	*2011*
Intrinsic value of stock options exercised	**$ 41**	$ 76	**$ 103**	$ 165
Cash received from option exercises	**24**	44	**45**	106
Treasury shares repurchased for employee payroll taxes	**(8)**	(16)	**(16)**	(41)
Tax benefit realized from option exercises	**15**	29	**39**	63
Aggregate grant-date fair value of stock options vested	**-**	1	**16**	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 six months ended June 30, 2012 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2012	2,556	$ 63.20
Granted	449	114.50
Vested	(571)	62.30
Forfeited	(54)	61.86
Nonvested at June 30, 2012	2,380	$ 73.12

Retention awards are granted at no cost to the employee or non-employee director and vest over periods lasting up to four years. At June 30, 2012, there was $89 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 2012, our Board of Directors approved performance stock unit grants. Other than different performance targets, the basic terms of these performance stock units are identical to those granted in February 2010 and February 2011, including using annual return on invested capital (ROIC) as the performance measure. 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.

Stock units awarded to selected employees under these grants are subject to continued employment for 37 months and the attainment of certain levels of ROIC. We expense the fair value of the units that are probable of being earned based on our forecasted ROIC over the 3-year performance period. We measure the fair value of these performance stock units based upon the closing price of the underlying common stock as of the date of grant, reduced by the present value of estimated future dividends. Dividend equivalents are paid to participants only after the units are earned.

The assumptions used to calculate the present value of estimated future dividends related to the February 2012 grant were as follows:

	2012
Dividend per share per quarter	$ 0.60

Risk-free interest rate at date of grant	0.3%

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Changes in our performance retention awards during the six months ended June 30, 2012 were as follows:

	Shares (thous.)	*Weighted-Average Grant-Date Fair Value*
Nonvested at January 1, 2012	1,204	$ 63.62
Granted	328	108.76
Vested	(349)	44.63
Forfeited	(98)	60.26
Nonvested at June 30, 2012	1,085	$ 83.67

At June 30, 2012, there was $48 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.5 years. This expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

5. Retirement Plans

Pension and Other Postretirement Benefits

Pension Plans We provide defined benefit retirement income to eligible non-union employees through 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 assumptions. Differences in actual experience in relation to assumptions are not recognized in net income immediately, but are deferred and, if necessary, amortized as pension or OPEB expense.

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2012***	*2011*	***2012***	*2011*
Service cost	**$ 14**	$ 11	**$ 27**	$ 22
Interest cost	**35**	36	**70**	72
Expected return on plan assets	**(48)**	(45)	**(95)**	(90)
Amortization of:				
Prior service cost	**-**	-	**-**	1
Actuarial loss	**21**	18	**42**	35
Net periodic pension cost	**$ 22**	$ 20	**$ 44**	$ 40

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	***2012***	*2011*	***2012***	*2011*
Service cost	**$ 1**	$ -	**$ 2**	$ 1
Interest cost	**4**	4	**7**	8
Amortization of:				
Prior service (credit)	**(4)**	(9)	**(8)**	(18)
Actuarial loss	**2**	4	**5**	7
Net periodic OPEB cost/(benefit)	**$ 3**	$ (1)	**$ 6**	$ (2)

Cash Contributions

For the six months ended June 30, 2012, we made $52 million of cash contributions to the qualified pension plan. Any additional contributions made in the second half of the year will be based on cash generated from operations and financial market considerations. All contributions made to the qualified pension plan during the six months ended June 30, 2012 were voluntary and were made with cash generated from operations. 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 June 30, 2012, we do not have minimum cash funding requirements for 2012.

6. Other Income

Other income included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	***2012***	*2011*	***2012***	*2011*
Rental income	**$ 21**	$ 19	**$ 41**	$ 39
Net gain on non-operating asset dispositions	**11**	4	**12**	5
Interest income	**-**	1	**1**	2
Early extinguishment of debt	**(2)**	-	**(2)**	-
Non-operating environmental costs and other	**(9)**	2	**(15)**	(5)
Total	**$ 21**	$ 26	**$ 37**	$ 41

7. Income Taxes

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 1999, although some interest calculations remain open for years prior to 1999. The IRS has completed its examinations and issued notices of deficiency for tax years 1999 through 2008. We disagree with many of their proposed adjustments, and we are at IRS Appeals for these years. Additionally, several state tax authorities are examining our state income tax returns for years 2003 through 2008.

In the third quarter of 2011, we reached an agreement in principle with the IRS to resolve all of the issues related to tax years 1999 through 2004, except for calculations of interest. We anticipate that we will have a final closing agreement with the IRS within the next 12 months. Once executed, this agreement should result in an immaterial reduction of income tax expense.

At June 30, 2012, our liability for unrecognized tax benefits was $113 million. We classified $33 million of this amount as current, the majority of which is in anticipation of a final settlement for tax years 1999-2004.

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8. Earnings Per Share

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions, Except Per Share Amounts	***2012***	*2011*	***2012***	*2011*
Net income	**$ 1,002**	$ 785	**$ 1,865**	$ 1,424
Weighted-average number of shares outstanding:				
Basic	**473.8**	488.4	**475.8**	489.0
Dilutive effect of stock options	**1.4**	1.4	**1.4**	1.4
Dilutive effect of retention shares and units	**2.0**	2.6	**2.1**	2.9
Diluted	**477.2**	492.4	**479.3**	493.3
Earnings per share basic	**$ 2.11**	$ 1.61	**$ 3.92**	$ 2.91
Earnings per share diluted	**$ 2.10**	$ 1.59	**$ 3.89**	$ 2.89
Stock options excluded as their inclusion would be antidilutive	**0.6**	0.6	**0.5**	0.5

9. Accumulated Other Comprehensive Income/(Loss)

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

Millions	***Jun. 30, 2012***	*Dec. 31, 2011*
Defined benefit plans	**$ (1,011)**	$ (1,004)
Foreign currency translation	**(48)**	(48)
Derivatives	**(2)**	(2)
Total	**$ (1,061)**	$ (1,054)

10. 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 June 30, 2012 and December 31, 2011, our accounts receivable were reduced by $5 million and $9 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 June 30, 2012 and December 31, 2011, receivables classified as other assets were reduced by allowances of $36 million and $41 million, respectively.

Receivables Securitization Facility Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was $600 million at June 30, 2012 and December 31, 2011, respectively. The value of the outstanding undivided interest held by investors under the facility was $100 million at June 30, 2012 and December 31, 2011, respectively, and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year. The value of the undivided interest held by investors was supported by $1.2 billion and $1.1 billion of accounts receivable at June 30, 2012, and December 31, 2011, respectively. At June 30, 2012, and December 31, 2011, the value of the interest retained by UPRI was $1.2 billion and $1.1 billion, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of June 30, 2012. Should our credit

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rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad collected approximately $4.9 billion and $4.6 billion during the three months ended June 30, 2012 and 2011, respectively, and $9.8 billion and $8.9 billion during the six months ended June 30, 2012 and 2011, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $1 million for the three months ended June 30, 2012 and 2011, and $2 million for the six months ended June 30, 2012, and 2011.

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.

We are currently in the process of renewing the receivables securitization facility for an additional 364-day period at comparable terms and conditions.

11. Properties

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

Millions, Except Percentages

As of June 30, 2012	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2012*
Land	$ 5,095	$ N/A	$ 5,095	N/A
Road:				
Rail and other track material [a]	12,858	4,677	8,181	3.4%
Ties	8,212	2,096	6,116	2.8%
Ballast	4,291	1,043	3,248	2.9%
Other [b]	14,427	2,535	11,892	2.6%
Total road	39,788	10,351	29,437	3.0%
Equipment:				
Locomotives	6,902	3,153	3,749	6.1%
Freight cars	1,938	1,029	909	3.5%
Work equipment and other	527	71	456	7.0%
Total equipment	9,367	4,253	5,114	5.6%
Technology and other	626	266	360	12.5%
Construction in progress	931	-	931	N/A
	$ 55,807	$ 14,870	$ 40,937	N/A

Total

[a] Includes a weighted-average composite depreciation rate for rail in high-density traffic corridors.

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

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Millions, Except Percentages

As of December 31, 2011	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2011*
Land	$ 5,098	$ N/A	$ 5,098	N/A
Road:				
Rail and other track material [a]	12,461	4,592	7,869	3.3%
Ties	7,987	2,028	5,959	2.9%
Ballast	4,178	1,008	3,170	3.0%
Other [b]	14,118	2,502	11,616	2.6%
Total road	38,744	10,130	28,614	2.9%
Equipment:				
Locomotives	6,502	3,003	3,499	5.7%
Freight cars	1,957	1,061	896	3.5%
Work equipment and other	529	57	472	6.5%
Total equipment	8,988	4,121	4,867	5.3%
Technology and other	610	259	351	12.3%
Construction in progress	1,004	-	1,004	N/A
Total	$ 54,444	$ 14,510	$ 39,934	N/A

[a] Includes a weighted-average composite depreciation rate for rail in high-density traffic corridors.

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

12. Accounts Payable and Other Current Liabilities

Millions	***Jun. 30, 2012***	*Dec. 31, 2011*
Accounts payable	**$ 955**	$ 819
Income and other taxes	**513**	482
Accrued wages and vacation	**369**	363
Dividends payable	**280**	284
Accrued casualty costs	**225**	249
Interest payable	**199**	197
Equipment rents payable	**96**	90
Other	**500**	624
Total accounts payable and other current liabilities	**$ 3,137**	$ 3,108

13. Financial Instruments

Strategy and Risk We may use derivative financial instruments in limited instances for other than trading purposes to assist in managing our overall exposure to fluctuations in interest rates and fuel prices. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes. Derivative financial instruments qualifying for hedge accounting must maintain a specified level

of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature and relationships between the hedging instruments and hedged items at inception, as well as our risk-management objectives, strategies for undertaking the various hedge transactions, and method of assessing hedge effectiveness. Changes in the fair market value of derivative financial instruments that do not qualify for hedge accounting are charged to earnings. We may use swaps, collars, futures, and/or forward contracts to mitigate the risk of adverse movements in interest rates and fuel prices; however, the use of these derivative financial instruments may limit future benefits from favorable interest rate and fuel price movements.

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

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Interest Rate Cash Flow Hedges We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At both June 30, 2012 and December 31, 2011, we had reductions of $2 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of June 30, 2012 and December 31, 2011, we had no interest rate cash flow hedges outstanding.

Fair Value of Financial Instruments The fair value of our short- and long-term debt was estimated using a market value price model, which incorporates observable Level 2 inputs obtained from an independent source. At June 30, 2012, the fair value of total debt was $11.2 billion, approximately $1.8 billion more than the carrying value. At December 31, 2011, the fair value of total debt was $10.5 billion, approximately $1.6 billion more than the carrying value. At June 30, 2012 and December 31, 2011, approximately $203 million and $303 million, respectively, of fixed-rate 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.

14. Debt

Credit Facilities At June 30, 2012, we had $1.8 billion of credit available under our revolving credit facility (the facility), which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility during the six months ended June 30, 2012. 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 our senior unsecured debt ratings. The facility requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At June 30, 2012, and December 31, 2011 (and at all times during the first and second quarters), we were in compliance with this covenant.

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 June 30, 2012, the debt-to-net-worth coverage ratio allowed us to carry up to $38.2 billion of debt (as defined in the facility), and we had $10.0 billion of debt (as defined in the facility) outstanding at that date. Under our capital 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 $75 million cross-default provision and a change-of-control provision.

During the three and six months ended June 30, 2012, we issued and repaid $50 million of commercial paper. At June 30, 2012, we had no commercial paper outstanding. Outstanding commercial paper balances are supported by our revolving credit facility but do not reduce the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings Under our current 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. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

On May 22, 2012, we borrowed $100 million under a 4-year-term loan (the loan). The loan has a floating rate based on London Interbank Offered Rates, plus a spread, and is prepayable in whole or in part without a premium prior to maturity. The agreement documenting the loan has provisions similar to our revolving credit facility, including identical debt-to-net-worth covenant and change-of-control provisions and similar customary default provisions. The agreement does not include any other financial restrictions, credit rating triggers, or any other provision that would require us to post collateral.

On June 11, 2012, we issued $300 million of 2.95% unsecured fixed-rate notes and $300 million of 4.30% unsecured fixed-rate notes under our shelf registration statement. The 2.95% notes will mature on January 15, 2023, and the 4.30% notes will mature on June 15, 2042. Proceeds from this offering are for

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general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program.

At both June 30, 2012 and December 31, 2011, we reclassified as long-term debt approximately $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.

Debt Redemption On April 28, 2012, we redeemed all $100 million of our outstanding 5.70% Tooele County, Utah Hazardous Waste Treatment Revenue Bonds due November 1, 2026. The redemption resulted in an early extinguishment charge of $2 million in the second quarter of 2012.

Receivables Securitization Facility As of June 30, 2012, and December 31, 2011, we recorded $100 million as secured debt under our receivables securitization facility. (See further discussion of our receivables securitization facility in Note 10).

Debt Exchange On June 23, 2011, we exchanged $857 million of various outstanding notes and debentures due between 2013 and 2019 (Existing Notes) for $750 million of 4.163% notes (New Notes) due July 15, 2022, plus cash consideration of approximately $267 million and $17 million for accrued and unpaid interest on the Existing Notes. In accordance with ASC 470-50-40, Debt-Modifications and Extinguishments-Derecognition, this transaction was accounted for as a debt exchange, as the exchanged debt instruments are not considered to be substantially different. The cash consideration was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. No gain or loss was recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debt holders totaled approximately $6 million and were included in interest expense during the three months ended June 30, 2011.

The following table lists the outstanding notes and debentures that were exchanged:

Millions	*Principal amount exchanged*
7.875% Notes due 2019	$ 196
5.450% Notes due 2013	50
5.125% Notes due 2014	45
5.375% Notes due 2014	55
5.700% Notes due 2018	277
5.750% Notes due 2017	178
7.000% Debentures due 2016	38
5.650% Notes due 2017	18
Total	$ 857

15. Variable Interest Entities

We have entered into various lease transactions in which the structure of the leases contain variable interest entities (VIEs). These VIEs were created solely for the purpose of doing lease transactions (principally involving railroad equipment and facilities, including our headquarters building) 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.

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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 price options are not considered to be potentially significant to the VIE s. The future minimum lease payments associated with the VIE leases totaled $3.7 billion as of June 30, 2012.

16. Commitments and Contingencies

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

Personal Injury The cost of personal injuries to employees and others related to our activities is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use 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. Approximately 90% of the recorded liability is related to asserted claims and approximately 10% is related to unasserted claims at June 30, 2012. 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 $340 to $368 million. We record an accrual at the low end of the range as no amount of loss 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 Six Months Ended June 30,	***2012***	*2011*
Beginning balance	**$ 368**	$ 426
Current year accruals	**58**	67
Changes in estimates for prior years	**(36)**	(39)
Payments	**(50)**	(53)
Ending balance at June 30	**$ 340**	$ 401
Current portion, ending balance at June 30	**$ 102**	$ 140

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 22% of the recorded liability related to asserted claims and approximately 78% related to unasserted claims at June 30, 2012.

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Our asbestos-related liability activity was as follows:

Millions,

for the Six Months Ended June 30,	***2012***	*2011*
Beginning balance	**$ 147**	$ 162
Accruals	**-**	-
Payments	**(4)**	(5)
Ending balance at June 30	**$ 143**	$ 157
Current portion, ending balance at June 30	**$ 9**	$ 11

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and we have recognized an asset for estimated insurance recoveries at June 30, 2012, and December 31, 2011.

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 289 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 32 sites that are the subject of actions taken by the U.S. government, 17 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When 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. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At June 30, 2012, none of our environmental liability was discounted, while less than 1% of our environmental liability was discounted at 2.0% at December 31, 2011.

Our environmental liability activity was as follows:

Millions,

for the Six Months Ended June 30,	***2012***	*2011*
Beginning balance	**$ 172**	$ 213
Accruals	**24**	17
Payments	**(16)**	(22)
Ending balance at June 30	**$ 180**	$ 208
	$ 47	$ 74

Current portion, ending balance at June 30

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.

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Estimates of liability may vary over time due to changes in federal, state, and local laws governing environmental remediation. Current obligations are not expected to have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

Insurance The 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 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 Statement of Financial Position.

Guarantees At June 30, 2012, we were contingently liable for $314 million in guarantees. We have recorded a liability of $2 million and $3 million for the fair value of these obligations as of June 30, 2012, and December 31, 2011, respectively. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

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

Operating Leases At June 30, 2012, 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 $4.2 billion.

Gain Contingency UPRR and Santa Fe Pacific Pipelines (SFPP, a subsidiary of Kinder Morgan Energy Partners, L.P.) currently are parties in a proceeding to resolve the fair market rent payable to UPRR under a 10-year agreement that commenced on January 1, 2004 for pipeline easements on UPRR rights-of-way (*Union Pacific Railroad Company vs. Santa Fe Pacific Pipelines, Inc., SFPP, L.P., Kinder Morgan Operating L.P. D Kinder Morgan G.P., Inc., et al., Superior Court of the State of California for the County of Los Angeles, filed July 28, 2004*). In February 2007, a trial began to resolve this issue, and, on September 28, 2011, the judge issued a tentative Statement of Decision, which concluded that SFPP owes back rent to UPRR for the years 2004 through 2011. On May 29, 2012, the court entered judgment, awarding UPRR back rent and prejudgment interest. SFPP is appealing the final judgment. A favorable final judgment may materially affect our results of operations in the period of any monetary recoveries; however, due to the uncertainty regarding the amount and timing of any recovery, including the outcome of SFPP s appeal of this judgment or any subsequent proceeding, we consider this a gain contingency and do not reflect any amounts in the Condensed Consolidated Financial Statements as of June 30, 2012.

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17. Share Repurchase Program

Effective April 1, 2011, our Board of Directors authorized the repurchase of 40 million common shares by March 31, 2014, replacing our previous repurchase program. The table below represents shares repurchased in the first quarter of 2011 under our previous repurchase program, and shares repurchased in the first and second quarters of 2012 under the new program.

	Number of Shares Purchased		*Average Price Paid*	
	2012	*2011*	***2012***	*2011*
First quarter	**3,917,369**	2,636,178	**$ 110.64**	$ 94.10
Second quarter	**3,770,528**	3,576,399	**110.02**	100.75
Total	**7,687,897**	6,212,577	**$ 110.33**	$ 97.92
Remaining number of shares that may yet be repurchased				20,168,511

Management s assessments of market conditions and other pertinent facts 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.

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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 Six Months Ended June 30, 2012, Compared to

Three and Six Months Ended June 30, 2011

For purposes of this report, unless the context otherwise requires, all references herein to UPC , Corporation , we , us , and our shall mean U 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 revenue is analyzed by commodity, we analyze the net financial results of the Railroad as one segment due to the integrated nature of the rail network.

Available Information

Our Internet website is 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 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. 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: 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 2011 Annual Report on Form 10-K. There have not been any significant changes with respect to these policies during the first six months of 2012.

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RESULTS OF OPERATIONS

Quarterly Summary

We reported record earnings of $2.10 per diluted share on net income of $1 billion in the second quarter of 2012 compared to earnings of $1.59 per diluted share on net income of $785 million for the second quarter of 2011. Year-to-date, net income was $1.9 billion versus $1.4 billion for the same period in 2011. Freight revenues increased $318 million in the second quarter compared to the same period in 2011 driven by core pricing gains, higher fuel surcharge recoveries and slight volume increases. Our diverse franchise more than offset lower coal and agricultural volumes with increases from other market sectors, including shale-related (crude oil, frac sand and pipe) and automotive shipments. Our continued focus on safety, service and network efficiency produced best-ever quarterly financial results through core pricing gains, lower fuel price and continued cost control.

Operationally, the network remained fluid. With efficient operations and moderate weather conditions in the second quarter of 2012, average train speed, as reported to the Association of American Railroads (AAR), increased 2% compared to 2011. Average terminal dwell time during the quarter remained consistent year-over-year as we handled a shift in business mix to more manifest traffic, which requires more switching, without impacting dwell time. Average rail car inventory decreased 1% in the second quarter due to productivity improvements and ongoing initiatives to reduce the number of cars in our fleet.

Operating Revenues

	Three Months Ended June 30,			*Six Months Ended June 30,*		
Millions	***2012***	*2011*	***% Change***	***2012***	*2011*	***% Change***
Freight revenues	**$ 4,913**	$ 4,595	**7%**	**$ 9,736**	$ 8,843	**10%**
Other revenues	**308**	263	**17**	**597**	505	**18**
Total	**$ 5,221**	$ 4,858	**7%**	**$ 10,333**	$ 9,348	**11%**

We generate freight revenues by transporting freight or other materials from our six commodity groups. Freight revenues vary with volume (carloads) and average revenue per car (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 our commuter rail operations, and 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. We recognize other revenues as we perform services or meet contractual obligations.

Freight revenues for five of the six commodity groups increased during the second quarter and year-to-date periods of 2012 compared to 2011, as a result of economic improvements in many market sectors, with particularly strong growth in shale-related, automotive and intermodal shipments. ARC increased 6% and 9% during the second quarter and year-to-date period, respectively, driven by core pricing gains and higher fuel cost recoveries.

Our fuel surcharge programs (excluding index-based contract escalators that contain some provision for fuel) generated $685 million and $1.3 billion in freight revenues in the second quarter and year-to-date periods of 2012, compared to $580 million and $992 million in the same periods of 2011, respectively. Higher fuel surcharge recoveries, due to the lag impact of our programs (surcharges trail fluctuations in fuel price by approximately two months), and new fuel surcharge provisions in recently renegotiated contracts increased fuel surcharge amounts in the second quarter and year-to-date periods of 2012. Additionally, fuel surcharge revenue is not entirely comparable to prior periods due to the continual conversion of portions of our non-regulated traffic to mileage-based fuel surcharge programs.

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In the second quarter and year-to-date period of 2012, other revenues increased from 2011 due primarily to higher revenues at our subsidiaries that broker intermodal and automotive services. Accessorial revenues also increased in the second quarter and year-to-date period, reflecting higher volume levels in intermodal and industrial products.

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

	Three Months Ended June 30,			*Six Months Ended June 30,*		
Freight Revenues			*%*			*%*
Millions	***2012***	*2011*	***Change***	***2012***	*2011*	***Change***
Agricultural	**$ 854**	$ 849	**1%**	**$ 1,712**	$ 1,656	**3%**
Automotive	**475**	381	**25**	**905**	723	**25**
Chemicals	**795**	703	**13**	**1,563**	1,367	**14**
Coal [a]	**869**	950	**(9)**	**1,864**	1,902	**(2)**
Industrial Products	**917**	803	**14**	**1,780**	1,493	**19**
Intermodal	**1,003**	909	**10**	**1,912**	1,702	**12**
Total	**$ 4,913**	$ 4,595	**7%**	**$ 9,736**	$ 8,843	**10%**

	Three Months Ended June 30,			*Six Months Ended June 30,*		
Revenue Carloads			*%*			*%*
Thousands	***2012***	*2011*	***Change***	***2012***	*2011*	***Change***
Agricultural	**233**	237	**(2)%**	**467**	475	**(2)%**
Automotive	**190**	165	**15**	**370**	322	**15**
Chemicals	**261**	233	**12**	**502**	456	**10**
Coal [a]	**412**	496	**(17)**	**907**	1,034	**(12)**
Industrial Products	**316**	297	**6**	**606**	560	**8**
Intermodal [b]	**846**	819	**3**	**1,624**	1,589	**2**
Total	**2,258**	2,247	**-%**	**4,476**	4,436	**1%**

	Three Months Ended June 30,			*Six Months Ended June 30,*		
			%			*%*
Average Revenue per Car	***2012***	*2011*	***Change***	***2012***	*2011*	***Change***
Agricultural	**$ 3,665**	$ 3,580	**2%**	**$ 3,665**	$ 3,483	**5%**
Automotive	**2,505**	2,321	**8**	**2,449**	2,250	**9**
Chemicals	**3,044**	3,024	**1**	**3,111**	3,000	**4**
Coal [a]	**2,109**	1,916	**10**	**2,055**	1,840	**12**
Industrial Products	**2,907**	2,697	**8**	**2,941**	2,665	**10**
Intermodal [b]	**1,185**	1,108	**7**	**1,177**	1,071	**10**
Average	**$ 2,176**	$ 2,045	**6%**	**$ 2,175**	$ 1,993	**9%**

[a] Formerly titled Energy.

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

Agricultural Products Price improvements and fuel surcharges more than offset lower volume as agricultural freight revenue increased 1% and 3% in the second quarter and year-to-date periods of 2012 versus 2011. Weak export demand for U.S. wheat and feed grains primarily drove 11% and 12% decreases for those commodities in the second quarter and six-month period of 2012 versus 2011, respectively, as unfavorable growing conditions in foreign markets led to strong demand for export shipments in 2011. Conversely, shipments of fresh potatoes increased due to a strong harvest during both periods of 2012.

Automotive Increased shipments of finished vehicles and automotive parts, combined with core pricing gains and fuel surcharges, improved automotive freight revenue in the second quarter and year-to-date periods in 2012 from 2011 levels. Higher production and sales levels during the second quarter and six-month period drove the volume growth. In addition, the disaster in Japan, which caused a reduction in shipments of international vehicles, reduced volume levels in the second quarter of 2011.

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Chemicals Higher volume, price improvements and fuel surcharges increased freight revenue from chemicals in the second quarter and six-month periods of 2012 versus 2011. Shipments of crude oil from the Bakken and Eagle Ford shale formations to the Gulf area drove the increase in chemical shipments. In addition, plastics and industrial chemicals shipments increased due to higher demand in both periods of 2012. Offsetting the increases were declines in potash due to temporary shutdowns and reduced production at several potash mines during the first half of 2012.

Coal (formerly titled Energy) Lower volume, partially offset by core pricing gains and higher fuel surcharges (including improved fuel recovery provisions), reduced freight revenue from coal shipments in the second quarter and year-to-date periods of 2012 compared to the same periods in 2011. Shipments of coal from the Southern Powder River Basin (SPRB) mines decreased 19% and 14% from the second quarter and first half of 2011, respectively. Increased coal stockpiles due to an unseasonably warm winter and low natural gas prices, which caused some displacement of coal in electricity production, led to the volume declines in both periods. Increasing summer temperatures during the second quarter improved demand for coal. However, volumes were still lower year-over-year despite the favorable comparison to reduced coal volumes in the second quarter of 2011 due to Midwest flooding. In addition, the loss of two contracts contributed to lower volumes from the SPRB. Coal shipments from the Colorado and Utah mines increased in the second quarter of 2012 and were flat for the year-to-date period versus 2011. Increased export shipments in the first half of 2012 offset the domestic declines due to the higher stockpiles.

Industrial Products Volume gains, core pricing improvement, and fuel surcharges increased freight revenue from industrial products in the second quarter and six-month periods of 2012 versus 2011. Shipments of non-metallic minerals (primarily frac sand), grew in response to a dramatic rise in horizontal drilling activity for energy products, while steel shipments increased due to higher demand for steel coils and plate for pipe (primarily for drilling) and automotive production in both periods. In addition, the mild winter allowed for more construction activity, which continued into the summer months, leading to higher demand for shipments of lumber, cement and stone compared to the first half of 2011.

Intermodal Core pricing gains, higher fuel surcharges (including improved fuel recovery provisions), and volume growth increased freight revenue from intermodal shipments in the second quarter and year-to-date periods in 2012 compared to 2011. Volume from international traffic increased 3% in the second quarter of 2012 versus 2011 driven by strengthening economic conditions. Year-to-date, flat international volumes compared to 2011 reflect the loss of a customer contract and weaker West Coast imports in the first quarter. Domestic traffic for the quarter and year-to-date periods increased 3% and 4%, respectively, versus 2011 due to recovering economic conditions and continued conversion from truck to rail.

Mexico Business Each of our commodity groups includes revenue from shipments to and from Mexico. Revenue from Mexico business increased 9% to $503 million in the second quarter of 2012 versus the same period in 2011. Volume levels for four of the six commodity groups increased (industrial products declined and chemicals shipments remained flat), up 5% in aggregate versus 2011, with particularly strong growth in automotive and intermodal shipments. Year-to-date, revenue grew 12% versus 2011 to $985 million, driven by volume growth of 6% versus 2011.

Operating Expenses

	Three Months Ended			*Six Months Ended*		
	June 30,		*%*	*June 30,*		*%*
Millions	***2012***	*2011*	***Change***	***2012***	*2011*	***Change***
Compensation and benefits	**$ 1,151**	$ 1,166	**(1)%**	**$ 2,362**	$ 2,333	**1%**
Fuel	**882**	904	**(2)**	**1,808**	1,730	**5**
Purchased services and materials	**542**	516	**5**	**1,068**	991	**8**
Depreciation	**433**	401	**8**	**860**	796	**8**
Equipment and other rents	**299**	283	**6**	**595**	585	**2**
Other	**190**	196	**(3)**	**406**	384	**6**
Total	**$ 3,497**	$ 3,466	**1%**	**$ 7,099**	$ 6,819	**4%**

Operating expenses increased $31 million and $280 million in the second quarter and six-month period of 2012 versus the comparable periods in 2011. Although our fuel price decreased 2% during the second

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quarter, fuel price per gallon was up 5% for the six-month period, accounting for $77 million of the year-to-date increase. Wage and benefit inflation, depreciation, volume-related trucking services purchased by our logistics subsidiaries, property taxes and destroyed equipment also contributed to higher expenses during both periods. Lower personal injury expense and locomotive lease costs partially offset these higher expenses. In the second quarter of 2011, flood related costs added $14 million to expenses.

Compensation and Benefits Compensation and benefits include wages, payroll taxes, health and welfare costs, pension costs, other postretirement benefits, and incentive costs. Operational improvements, cost reductions and lower training costs for new employees more than offset general wage and benefit inflation and higher pension and other postretirement benefits in the second quarter of 2012 versus 2011. Year-to-date, general wage and benefit inflation; volume-related expenses from a larger work force, up 3% (2% to accommodate increased capital project work); and higher expenses for pension and other postretirement benefits drove a 1% increase versus 2011. Partially offsetting the higher expenses were operational improvements and cost reductions for the year-to-date period of 2012.

Fuel Fuel includes locomotive fuel and gasoline for highway and non-highway vehicles and heavy equipment. Locomotive diesel fuel prices, which averaged $3.21 (including taxes and transportation costs) in the second quarter of 2012 compared to $3.29 per gallon in the same period in 2011, decreased expenses $20 million. For the six month period, higher locomotive diesel fuel prices, which averaged $3.22 per gallon versus $3.08 per gallon in 2011, increased fuel expense $77 million. Volume, as measured by gross ton-miles, decreased 2% in the second quarter versus 2011 and remained flat in the six-month period with 2011. The fuel consumption rate, computed as gallons of fuel consumed divided by gross ton-miles in thousands, increased 2% for the second quarter and slightly for the year-to-date period of 2012. Commodity mix changes (a shift from coal shipments to intermodal and automotive shipments) were the main driver of the gross-ton-mile and fuel consumption rate variances and essentially offset each other from a cost perspective.

Purchased Services and Materials Expense for purchased services and materials includes the costs of services purchased from outside contractors (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. Contract services increased 5% and 9% compared to the second quarter and the six-month periods of 2011, respectively, primarily due to increased demand for trucking services purchased by our logistics subsidiaries and additional costs for repair and maintenance of locomotives and freight cars. Volume-related crew transportation and lodging and material costs also increased purchased services and materials expense in both periods of 2012.

Depreciation The majority of depreciation relates to road property, including rail, ties, ballast, and other track material. A higher depreciable asset base, reflecting higher ongoing capital spending, increased depreciation expense in the second quarter and year-to-date periods in 2012 compared to 2011.

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; other rent expenses; and office and other rentals. Increased automotive and intermodal shipments partially offset by improved car-cycle times drove an $8 million and $14 million increase in our short-term freight car rental expense in the second quarter and year-to-date periods of 2012, respectively, compared to 2011. Conversely, lower locomotive expenses compared to both periods in 2011, partially offset the higher freight car rental expense.

Other Other expenses include personal injury, freight and property damage, destruction of equipment owned by others, insurance, environmental, bad debt, state and local taxes, utilities, telephone and cellular, employee travel, computer software, and other general expenses. Lower personal injury costs partially offset by higher destroyed equipment and property tax expenses decreased other costs in the second quarter of 2012 compared to the same period of 2011. As a result of continued improvement in our safety experience and lower estimated costs, personal injury expense decreased in the second quarter of 2012 compared to 2011, as the reduction of the liability for prior years from our recent actuarial study was more than the reduction from our 2011 study. Year-to-date, higher property taxes, destroyed equipment and property damage more than offset the lower personal injury costs.

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Non-Operating Items

Millions	Three Months Ended June 30, 2012	2011	% Change	Six Months Ended June 30, 2012	2011	% Change
Other income	**$ 21**	$ 26	**(19)%**	**$ 37**	$ 41	**(10)%**
Interest expense	**(135)**	(148)	**(9)**	**(270)**	(289)	**(7)**
Income taxes	**(608)**	(485)	**25**	**(1,136)**	(857)	**33**

Other Income Other income decreased in the second quarter and six-month period of 2012 versus the same period in 2011 due to higher environmental costs on non-operating properties and premiums paid for early redemption of existing long-term debt in the second quarter of 2012.

Interest Expense Interest expense decreased in the second quarter of 2012 versus 2011 due to a lower weighted-average debt level of $9.0 billion versus $9.1 billion. The effective interest rate was 6.0% versus 6.3% in the second quarter of 2012 and 2011, respectively. A lower weighted-average debt level of $8.9 billion in 2012 versus $9.2 billion in 2011 drove the decrease in year-to-date interest expense. The effective interest rate was 6.1% versus 6.3% year-to-date in 2012 and 2011, respectively.

Income Taxes Higher pre-tax income primarily drove the increase in income taxes in the second quarter and year-to-date in 2012 compared to 2011. Our effective tax rate for the second quarter of 2012 was 37.8% compared to 38.2% in 2011. The 2012 second quarter effective tax rate was lower primarily due to state credits. Our year-to-date effective tax rate for 2012 was 37.9% compared to 37.6% in 2011. The year-to-date 2012 effective tax rate was higher than the 2011 rate primarily because Arizona legislation reduced the state corporate tax rate in 2011.

OTHER OPERATING/PERFORMANCE AND FINANCIAL STATISTICS

We report key Railroad performance measures weekly to the Association of American Railroads (AAR), including carloads, average daily inventory of rail cars on our system, average train speed, and average terminal dwell time. We provide this data on our website at www.up.com/investors/reports/index.shtml.

Operating/Performance Statistics

Railroad performance measures reported to the AAR, as well as other performance measures, are included in the table below:

	Three Months Ended June 30, 2012	2011	% Change	Six Months Ended June 30, 2012	2011	% Change
Average train speed (miles per hour)	**26.6**	26.1	**2 %**	**26.5**	26.1	**2 %**
Average terminal dwell time (hours)	**25.5**	25.6	**- %**	**26.0**	26.0	**- %**
Average rail car inventory (thousands)	**268.6**	271.9	**(1)%**	**272.0**	271.5	**- %**
Gross ton-miles (billions)	**234.5**	239.2	**(2)%**	**475.0**	474.6	**- %**
Revenue ton-miles (billions)	**126.6**	132.2	**(4)%**	**259.3**	264.9	**(2)%**
Operating ratio	**67.0**	71.3	**(4.3) pts**	**68.7**	72.9	**(4.2) pts**
Employees (average)	**45,797**	44,971	**2 %**	**45,720**	44,508	**3 %**
Customer satisfaction index	**93**	92	**1 pt**	**93**	92	**1 pt**

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 Association of American Railroads (AAR), increased 2% in both the second quarter and year-to-date period of 2012 versus 2011. Efficient operations and relatively mild weather conditions during the first half of the year compared favorably to the same period in 2011, during which flooding and severe winter weather affected various parts of our network. We continued operating a fluid and efficient network during the first half of 2012 while handling essentially the same volume and adjusting operations to accommodate increased capital project work on our network compared to the first half of 2011.

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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 remained consistent in the second quarter and six-month period of 2012 compared to 2011, despite a shift in mix to more switching-intensive manifest commodities.

Average Rail Car Inventory Average rail car inventory is the daily average number of rail cars on our lines, including rail cars in storage. Lower average rail car inventory reduces congestion in our yards and sidings, which increases train speed, reduces average terminal dwell time, and improves rail car utilization. Average rail car inventory decreased 1% in the second quarter due to productivity improvements and ongoing initiatives to reduce the number of cars in our fleet. Year-to-date, average rail car inventory was flat compared to 2011.

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 remained flat in the first half of 2012 compared to the same period in 2011, while revenue ton-miles decreased 2% and carloads increased 1%. Commodity mix changes drove the variance in year-over-year growth between gross ton-miles, revenue ton-miles and carloads. The same relationships held true for the second quarter.

Operating Ratio Operating ratio is our operating expenses reflected as a percentage of operating revenue. Our operating ratio improved 4.3 points to a record low 67.0% in the second quarter of 2012 versus the same period of 2011 and 4.2 points to 68.7% in the six-month period of 2012 versus 2011. Core pricing gains, improved fuel recovery provisions coupled with lower fuel prices more than offset the impact of inflation for the second quarter of 2012 versus the same period in 2011. Year-to-date, core pricing gains and improved fuel recovery provisions more than offset the impact of higher fuel prices and inflation.

Employees Employee levels were up 2% and 3% in the second quarter and six-month period of 2012 versus 2011, respectively. Increased work on capital projects during the mild winter, which continued into the summer months, accounted for almost all of the increase in employee levels in both periods.

Customer Satisfaction Index Our customer satisfaction survey asks customers to rate how satisfied they are with our performance over the last 12 months on a variety of attributes. A higher score indicates higher customer satisfaction. The improvement in survey results generally reflects customer recognition of our service quality.

Debt to Capital / Adjusted Debt to Capital

Millions, Except Percentages	***Jun. 30, 2012***	*Dec. 31, 2011*
Debt (a)	**$ 9,416**	$ 8,906
Equity	**19,087**	18,578
Capital (b)	**$ 28,503**	$ 27,484
Debt to capital (a/b)	**33.0%**	32.4%

Millions, Except Percentages	***Jun. 30, 2012***	*Dec. 31, 2011*
Debt	**$ 9,416**	$ 8,906
Net present value of operating leases	**3,020**	3,224
Unfunded pension and OPEB	**623**	623
Adjusted debt (a)	**13,059**	12,753
Equity	**19,087**	18,578
Adjusted capital (b)	**$ 32,146**	$ 31,331
Adjusted debt to capital (a/b)	**40.6%**	40.7%

Adjusted debt to capital is a non-GAAP financial measure under SEC Regulation G and Item 10 of SEC Regulation S-K. 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

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generally incur in connection with financing the acquisition of locomotives and freight cars and certain facilities. Operating leases were discounted using 6.1% at June 30, 2012 and 6.2% at December 31, 2011. The lower discount rate reflects changes to interest rates and our current financing costs. 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 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 Six Months Ended June 30	***2012***	*2011*
Cash provided by operating activities	**$ 2,776**	$ 2,640
Cash used in investing activities	**(1,882)**	(1,366)
Cash used in financing activities	**(910)**	(1,305)
Net change in cash and cash equivalents	**$ (16)**	$ (31)

Operating Activities

Higher net income in the first six months of 2012 increased cash provided by operating activities compared to the same period of 2011, partially offset by additional payments for income taxes that were previously deferred under bonus depreciation, payments for past wages based on national labor negotiations settled earlier this year and higher voluntary pension contributions.

Investing Activities

Higher capital investments in the first six months of 2012 drove the increase in cash used in investing activities compared to the same period in 2011. Included in capital investments in the first six months of 2012 was $75 million for the early buyout of locomotives under long-term operating and capital leases, which we exercised due to favorable economic terms and market conditions.

The table below details cash capital investments:

Millions,

for the Six Months Ended June 30	***2012***	*2011*
Rail and other track material	**$ 371**	$ 350
Ties	**227**	199
Ballast	**104**	110
Other [a]	**111**	130
Total road infrastructure replacements	**813**	789
Line expansion and other capacity projects	**212**	129
Commercial facilities	**71**	18
Total capacity and commercial facilities	**283**	147
Locomotives and freight cars	**467**	248
Positive train control	**161**	84
Technology and other	**92**	59
Total cash capital investments	**$ 1,816**	$ 1,327

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

Capital Plan In 2012, we intend to make new capital investments of approximately $3.6 billion under our capital plan, which may be revised if business conditions warrant or if new laws or regulations affect our ability to generate sufficient returns on these investments. In addition, we project expenditures of $96 million ($85 million recognized in the first six months) for the early buyout of long-term locomotive leases.

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Financing Activities

Cash used in financing activities decreased in the first six months of 2012 versus the same period of 2011 driven by new debt issued of $695 million and a reduction of debt payments of $210 million, partially offset by an increase of $225 million for the repurchase of shares under our common stock repurchase program and higher dividend payments in 2012 of $575 million compared to $374 million in 2011, reflecting higher dividends per share.

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 accounting principles generally accepted in the U.S. (GAAP) by SEC Regulation G and Item 10 of SEC Regulation S-K. 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 financings. 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 Six Months Ended June 30		***2012***		*2011*
Cash provided by operating activities	**$**	**2,776**	$	2,640
Cash used in investing activities		**(1,882)**		(1,366)
Dividends paid		**(575)**		(374)
Free cash flow	**$**	**319**	$	900

Credit Facilities At June 30, 2012, we had $1.8 billion of credit available under our revolving credit facility (the facility), which is designated for general corporate purposes and supports the issuance of commercial paper. We did not draw on the facility during the six months ended June 30, 2012. 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 our senior unsecured debt ratings. The facility requires the Corporation to maintain a debt-to-net-worth coverage ratio as a condition to making a borrowing. At June 30, 2012, and December 31, 2011 (and at all times during the first and second quarters), we were in compliance with this covenant.

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 June 30, 2012, the debt-to-net-worth coverage ratio allowed us to carry up to $38.2 billion of debt (as defined in the facility), and we had $10.0 billion of debt (as defined in the facility) outstanding at that date. Under our current 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 $75 million cross-default provision and a change-of-control provision.

During the three and six months ended June 30, 2012, we issued and repaid $50 million of commercial paper. At June 30, 2012, we had no commercial paper outstanding. Outstanding commercial paper balances are supported by our revolving credit facility but do not reduce the amount of borrowings available under the facility.

Shelf Registration Statement and Significant New Borrowings Under our current 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. We have no immediate plans to issue equity securities; however, we will continue to explore opportunities to replace existing debt or access capital through issuances of debt securities under our shelf registration, and, therefore, we may issue additional debt securities at any time.

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On May 22, 2012, we borrowed $100 million under a 4-year-term loan (the loan). The loan has a floating rate based on London Interbank Offered Rates, plus a spread, and is prepayable in whole or in part without a premium prior to maturity. The agreement documenting the loan has provisions similar to our revolving credit facility, including identical debt-to-net-worth covenant and change-of-control provisions and similar customary default provisions. The agreement does not include any other financial restrictions, credit rating triggers, or any other provision that would require us to post collateral.

On June 11, 2012, we issued $300 million of 2.95% unsecured fixed-rate notes and $300 million of 4.30% unsecured fixed-rate notes under our shelf registration statement. The 2.95% notes will mature on January 15, 2023, and the 4.30% notes will mature on June 15, 2042. Proceeds from this offering are for general corporate purposes, including the repurchase of common stock pursuant to our share repurchase program.

At both June 30, 2012, and December 31, 2011, we reclassified as long-term debt approximately $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.

Debt Redemption On April 28, 2012, we redeemed all $100 million of our outstanding 5.70% Tooele County, Utah Hazardous Waste Treatment Revenue Bonds due November 1, 2026. The redemption resulted in an early extinguishment charge of $2 million in the second quarter of 2012.

Receivables Securitization Facility Under the receivables securitization facility, the Railroad sells most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary. UPRI may subsequently transfer, without recourse on a 364-day revolving basis, an undivided interest in eligible accounts receivable to investors. The total capacity to transfer undivided interests to investors under the facility was $600 million at June 30, 2012 and December 31, 2011, respectively. The value of the outstanding undivided interest held by investors under the facility was $100 million at June 30, 2012 and December 31, 2011, respectively, and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year. The value of the undivided interest held by investors was supported by $1.2 billion and $1.1 billion of accounts receivable at both June 30, 2012, and December 31, 2011, respectively. At June 30, 2012, and December 31, 2011, the value of the interest retained by UPRI was $1.2 billion and $1.1 billion, respectively. This retained interest is included in accounts receivable, net in our Condensed Consolidated Statements of Financial Position.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution ratios increase one percent, the value of the outstanding undivided interest held by investors would not change as of June 30, 2012. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad collected approximately $4.9 billion and $4.6 billion during the three months ended June 30, 2012 and 2011, respectively, and $9.8 billion and $8.9 billion during the six months ended June 30, 2012 and 2011, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the receivables securitization facility include interest, which will vary based on prevailing commercial paper rates, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability. The costs of the receivables securitization facility are included in interest expense and were $1 million for the three months ended June 30, 2012 and 2011, and $2 million for the six months ended June 30, 2012, and 2011.

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.

We are currently in the process of renewing the receivables securitization facility for an additional 364-day period at comparable terms and conditions.

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Debt Exchange On June 23, 2011, we exchanged $857 million of various outstanding notes and debentures due between 2013 and 2019 (Existing Notes) for $750 million of 4.163% notes (New Notes) due July 15, 2022, plus cash consideration of approximately $267 million and $17 million for accrued and unpaid interest on the Existing Notes. In accordance with ASC 470-50-40, Debt-Modifications and Extinguishments-Derecognition, this transaction was accounted for as a debt exchange, as the exchanged debt instruments are not considered to be substantially different. The cash consideration was recorded as an adjustment to the carrying value of debt, and the balance of the unamortized discount and issue costs from the Existing Notes is being amortized as an adjustment of interest expense over the term of the New Notes. No gain or loss was recognized as a result of the exchange. Costs related to the debt exchange that were payable to parties other than the debt holders totaled approximately $6 million and were included in interest expense during the three months ended June 30, 2011.

The following table lists the outstanding notes and debentures that were exchanged:

Millions	*Principal amount exchanged*
7.875% Notes due 2019	$ 196
5.450% Notes due 2013	50
5.125% Notes due 2014	45
5.375% Notes due 2014	55
5.700% Notes due 2018	277
5.750% Notes due 2017	178
7.000% Debentures due 2016	38
5.650% Notes due 2017	18
Total	$ 857

Share Repurchase Program The shares repurchased in the first quarter of 2011, shown in the table below, were repurchased under our authorized repurchase program that expired on March 31, 2011. Effective April 1, 2011, our Board of Directors authorized the repurchase of 40 million common shares by March 31, 2014, replacing our previous repurchase program. The shares repurchased in the second quarter of 2011, and the first and second quarters of 2012 shown in the table below, were purchased under the new program. As of June 30, 2012, we had repurchased a total of $6.5 billion of UPC common stock since the commencement of purchases under our repurchase programs.

	Number of Shares Purchased		*Average Price Paid*	
	2012	*2011*	***2012***	*2011*
First quarter	**3,917,369**	2,636,178	**$ 110.64**	$ 94.10
Second quarter	**3,770,528**	3,576,399	**110.02**	100.75
Total	**7,687,897**	6,212,577	**$ 110.33**	$ 97.92

Remaining number of shares that may yet be repurchased	20,168,511

Management s assessments of market conditions and other pertinent facts 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.

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 June 30, 2012:

Contractual Obligations

		Payments Due by Dec. 31,						
Millions	*Total*	*Jul. 1 through Dec. 31, 2012*	*2013*	*2014*	*2015*	*2016*	*After 2016*	*Other*
Debt [a]	$ 13,268	$ 315	$ 869	$ 903	$ 631	$ 768	$ 9,782	$ -
Operating leases [b]	4,214	253	479	404	364	328	2,386	-
Capital lease obligations [c]	2,410	276	250	248	243	225	1,168	-
Purchase obligations [d]	6,581	2,060	2,023	966	334	302	864	32
Other postretirement benefits [e]	1,710	79	161	166	171	176	957	-
Income tax contingencies [f]	113	33	-	-	-	-	-	80
Total contractual obligations	$ 28,296	$ 3,016	$ 3,782	$ 2,687	$ 1,743	$ 1,799	$ 15,157	$ 112

[a] Excludes capital lease obligations of $1,798 million and unamortized discount of ($361) million. Includes an interest component of $5,289 million.

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

[c] Represents total obligations, including interest component of $612 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 reflected 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. No amounts are included for funded pension obligations as no contributions are currently required.

[f] Future cash flows for income tax contingencies reflect the recorded liability for unrecognized tax benefits, including interest and penalties, at June 30, 2012. Where we can reasonably estimate the years in which these liabilities may be settled, this is shown in the table. For amounts where we cannot reasonably estimate the year of settlement, they are reflected in the Other column.

Other Commercial Commitments

		Amount of Commitment Expiration by Dec. 31,					
Millions	*Total*	*Jul. 1 through Dec. 31, 2012*	*2013*	*2014*	*2015*	*2016*	*After 2016*
Credit facilities [a]	$ 1,800	$ -	$ -	$ -	$ 1,800	$ -	$ -
Receivables securitization facility [b]	600	600	-	-	-	-	-
Guarantees [c]	314	7	8	214	12	13	60
Standby letters of credit [d]	24	7	17	-	-	-	-
	$ 2,738	$ 614	$ 25	$ 214	$ 1,812	$ 13	$ 60

Total commercial commitments	

[a] None of the credit facility was used as of June 30, 2012.

[b] $100 million of the receivables securitization facility was utilized at June 30, 2012, which is accounted for as debt. The full program matures in August 2012.

[c] Includes guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations.

[d] None of the letters of credit were drawn upon as of June 30, 2012.

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; however, to the extent possible, where asserted and unasserted claims are considered probable and where such claims can be reasonably estimated, we have recorded a liability. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities and insurance recoveries previously recorded for these matters.

Indemnities Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or

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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.

Labor Agreements In April 2012, members of the Brotherhood of Maintenance of Way Employees (BMWE) ratified a new agreement with the nation s major freight railroads, joining 12 other unions that had previously ratified new contracts. This ratification concludes the current national collective bargaining negotiations for the rail industry.

Accounting Pronouncements On January 1, 2012, we adopted 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05), which requires presentation of the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements and eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The standard does not change the items that must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. Also, in December of 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12).

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 Securities Exchange Act of 1934. 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 , and 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; 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 2011 Annual Report on Form 10-K, filed February 3, 2012, 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

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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 2011 Annual Report on Form 10-K.

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 Finance 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 have been 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 have 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

As we reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, UPRR received notices from EPA Region 8 and U.S. Department of Justice (DOJ) alleging that it may be liable under federal environmental laws for violating the Clean Water Act and the Oil Pollution Prevention Act relating to derailments and spills and UPRR s Spill Prevention Countermeasure and Control Plans (SPCC) and its Stormwater Pollution Prevention Plans in Colorado, Utah, and Wyoming. UPRR, EPA Region 8 and the DOJ have entered into a Consent Decree to resolve this matter. Under the terms of the Consent Decree, UPRR has implemented a variety of measures to correct deficiencies in its SPCC, Stormwater Pollution Prevention Plans and Federal Response Plans. UPRR also agreed to pay a civil penalty of $1.5 million, which it paid during the second quarter of 2012.

On May 4, 2012, the Sacramento County Environmental Management Department issued an administrative Enforcement Order to UPRR, alleging various permitting and hazardous waste management, disposal and record keeping violations at one facility within the company s Roseville railyard. The Enforcement Order seeks to impose administrative penalties in the amount of approximately $127,000. The Company requested a hearing on the Enforcement Order and the penalty.

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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.

Other Matters

As we reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, 20 small rail shippers (many of whom are represented by the same law firms) filed virtually identical antitrust lawsuits in various federal district courts against us and four other Class I railroads in the U.S (one railroad was eventually dropped from the lawsuit). The original plaintiff filed the first of these claims in the U.S. District Court in New Jersey on May 14, 2007, and the additional plaintiffs filed claims in district courts in various states, including Florida, Illinois, Alabama, Pennsylvania, and the District of Columbia. These suits allege that the named railroads engaged in price-fixing by establishing common fuel surcharges for certain rail traffic.

We received additional complaints following the initial claim, increasing the total number of complaints to 30. In addition to suits filed by direct purchasers of rail transportation, a few of the suits involved plaintiffs alleging that they are or were indirect purchasers of rail transportation and seeking to represent a purported class of indirect purchasers of rail transportation 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. Subsequently, the direct purchaser plaintiffs and the indirect purchaser plaintiffs filed Consolidated Amended Class Action Complaints against UPRR and three other Class I railroads.

One additional shipper filed a separate anti-trust suit during 2008. Subsequently, the shipper voluntarily dismissed the action without prejudice.

On October 10, 2008, Judge Friedman heard oral arguments with respect to the defendant railroads motions to dismiss. In a ruling on November 7, 2008, Judge Friedman denied the motion with respect to the direct purchasers complaint, and pretrial proceedings are underway in that case. On December 31, 2008, Judge Friedman dismissed the complaints of the indirect purchasers based upon state antitrust, consumer protection, and unjust enrichment laws. He also ruled, however, that these plaintiffs could proceed with their claim for injunctive relief under the federal antitrust laws, which is identical to a claim by the direct purchaser plaintiffs. The indirect purchasers appealed Judge Friedman s ruling to the U.S. Court of Appeals for the District of Columbia. 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.

With respect to the direct purchasers complaint, Judge Friedman conducted a two-day hearing on October 6 and 7, 2010, on the class certification issue and the railroad defendants motion to exclude evidence of interline communications. On April 7, 2011, Judge Friedman issued an order deferring any decision on class certification until the Supreme Court issued its decision in the Wal-Mart employment discrimination case.

On June 21, 2012, Judge Friedman issued his decision certifying a class of plaintiffs to be represented by the eight named plaintiffs. The class includes 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 1, 2008. This is a procedural ruling, and, therefore, it does not affirm any of the claims asserted by the plaintiffs and does not affect the ability of the railroad defendants to disprove the allegations made by the plaintiffs. 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.

We 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.

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Item 1A. Risk Factors

There were no material changes from the risk factors previously disclosed in our 2011 Annual Report on Form 10-K.

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 second quarter of 2012:

Period	*Total Number of Shares Purchased [a]*	*Average Price Paid Per Share*	*Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program [b]*	*Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program [b]*
Apr. 1 through Apr. 30	1,644,389	$ 108.11	1,611,700	22,327,339
May 1 through May 31	1,056,547	111.56	978,287	21,349,052
Jun. 1 through Jun. 30	1,192,222	111.73	1,180,541	20,168,511
Total	3,893,158	$ 110.15	3,770,528	N/A

[a] Total number of shares purchased during the quarter includes 122,630 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] On April 1, 2011, our Board of Directors authorized the repurchase of up to 40 million shares of our common stock by March 31, 2014. 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 that, under certain circumstances, restricts the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends was $14.1 billion and $13.8 billion at June 30, 2012 and December 31, 2011, 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
Filed with this Statement	
12(a)	Ratio of Earnings to Fixed Charges for the Three Months Ended June 30, 2012 and 2011.
12(b)	Ratio of Earnings to Fixed Charges for the Six Months Ended June 30, 2012 and 2011.
31(a)	Certifications Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - John J. Koraleski.
31(b)	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 John J. Koraleski 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 June 30, 2012 (filed with the SEC on July 20, 2012), is formatted in XBRL and submitted electronically herewith: (i) Consolidated Statements of Income for the periods ended June 30, 2012 and 2011, (ii) Consolidated Statements of Comprehensive Income for the periods ended June 30, 2012 and 2011, (iii) Consolidated Statements of Financial Position at June 30, 2012 and December 31, 2011, (iv) Consolidated Statements of Cash Flows for the periods ended June 30, 2012 and 2011, (v) Consolidated Statements of Changes in Common Shareholders Equity for the periods ended June 30, 2012 and 2011, and (vi) the Notes to the Consolidated Financial Statements.
Incorporated by Reference	
3(a)	Revised Articles of Incorporation of UPC, as amended through June 27, 2011, 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, 2011.
3(b)	By-Laws of UPC, as amended, effective May 14, 2009, are incorporated herein by reference to Exhibit 3.2 to the Corporation s Current Report on Form 8-K dated May 15, 2009.
4(a)	Form of 2.950% Note due 2023 is incorporated herein by reference to Exhibit 4.1 to the Corporation s Current Report on Form 8-K dated June 11, 2012.
4(b)	Form of 4.300% Note due 2042 is incorporated herein by reference to Exhibit 4.2 to the Corporation s Current Report on Form 8-K dated June 11, 2012.

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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: July 20, 2012

UNION PACIFIC CORPORATION

(Registrant)

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

By /s/ Jeffrey P. Totusek
Jeffrey P. Totusek
Vice President and Controller
(Principal Accounting Officer)