UNION PACIFIC RAILROAD COMPANY and CONSOLIDATED SUBSIDIARY COMPANIES

Condensed Consolidated Financial Statements for the Quarterly Period Ended June 30, 2010

UNION PACIFIC RAILROAD COMPANY and
CONSOLIDATED SUBSIDIARY COMPANIES

Index to Condensed Consolidated Financial Statements **Page**

Condensed Consolidated Statements of Income (Unaudited)
For the Three Months Ended June 30, 2010 and 2009 3

Condensed Consolidated Statements of Income (Unaudited)
For the Six Months Ended June 30, 2010 and 2009 4

Condensed Consolidated Statements of Financial Position (Unaudited)
At June 30, 2010 and December 31, 2009 5

Condensed Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2010 and 2009 6

Condensed Consolidated Statements of Changes in Common Shareholders' Equity (Unaudited)
For the Six Months Ended June 30, 2010 and 2009 7

Notes to the Condensed Consolidated Financial Statements (Unaudited) 8

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions, for the Three Months Ended June 30,	***2010***	*2009 (Adjusted)**
Operating revenues:		
Freight revenues	**$ 3,956**	$ 3,121
Other revenues	**217**	175
Total operating revenues	**4,173**	3,296
Operating expenses:		
Compensation and benefits	**1,037**	964
Fuel	**608**	370
Purchased services and materials	**465**	394
Depreciation	**368**	350
Equipment and other rents	**282**	306
Other	**136**	164
Total operating expenses	**2,896**	2,548
Operating income	**1,277**	748
Other income (Note 7)	**21**	134
Interest expense	**(117)**	(94)
Income before income taxes	**1,181**	788
Income taxes	**(448)**	(289)
Net income	**$ 733**	$ 499

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

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

Condensed Consolidated Statements of Income (Unaudited)

Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions, for the Six Months Ended June 30,	***2010***	*2009 (Adjusted)**
Operating revenues:		
Freight revenues	**$ 7,711**	$ 6,361
Other revenues	**421**	345
Total operating revenues	**8,132**	6,706
Operating expenses:		
Compensation and benefits	**2,080**	2,024
Fuel	**1,191**	756
Purchased services and materials	**893**	795
Depreciation	**734**	691
Equipment and other rents	**571**	623
Other	**397**	398
Total operating expenses	**5,866**	5,287
Operating income	**2,266**	1,419
Other income (Note 7)	**38**	156
Interest expense	**(233)**	(184)
Income before income taxes	**2,071**	1,391
Income taxes	**(787)**	(498)
Net income	**$ 1,284**	$ 893

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

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

Condensed Consolidated Statements of Financial Position (Unaudited)
Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions	***Jun. 30, 2010***	*Dec. 31, 2009 (Adjusted)**
Assets		
Current assets:		
Cash and cash equivalents	**$ 471**	$ 461
Accounts receivable, net (Note 2)	**1,168**	595
Materials and supplies	**496**	475
Current deferred income taxes	**349**	325
Other current assets	**233**	313
Total current assets	**2,717**	2,169
Investments	**1,041**	1,012
Net properties (Note 10)	**37,516**	37,193
Other assets	**193**	196
Total assets	**$ 41,467**	$ 40,570
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable and other current liabilities (Note 11)	**$ 2,275**	$ 2,061
Third-party debt due within one year (Note 14)	**231**	196
Total current liabilities	**2,506**	2,257
Intercompany borrowings from UPC (Note 12)	**3,279**	3,591
Third-party debt due after one year (Note 14)	**2,181**	2,203
Deferred income taxes	**11,129**	10,983
Other long-term liabilities	**1,974**	2,124
Commitments and contingencies (Note 16)		
Total liabilities	**21,069**	21,158
Common shareholders' equity:		
Common shares, $10.00 par value, 9,200 authorized; 4,465 outstanding		
Class A Stock, $10.00 par value, 800 authorized; 388 outstanding	**-**	-
Paid-in-surplus	**4,782**	4,782
Retained earnings	**16,264**	15,284
Accumulated other comprehensive loss (Note 9)	**(648)**	(654)
Total common shareholders' equity	**20,398**	19,412
Total liabilities and common shareholders' equity	**$ 41,467**	$ 40,570

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

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

Condensed Consolidated Statements of Cash Flows (Unaudited)
Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions, for the Six Months Ended June 30,	***2010***	*2009 (Adjusted)**
Operating Activities		
Net income	**$ 1,284**	$ 893
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**734**	691
Deferred income taxes and unrecognized tax benefits	**121**	211
Net gain on non-operating asset dispositions	**(8)**	(132)
Other operating activities, net	**(151)**	(113)
Changes in current assets and liabilities:		
Accounts receivable, net (Note 2)	**(573)**	(40)
Materials and supplies	**(21)**	(57)
Other current assets	**80**	33
Accounts payable and other current liabilities	**214**	30
Cash provided by operating activities	**1,680**	1,516
Investing Activities		
Capital investments	**(1,054)**	(1,066)
Proceeds from asset sales	**31**	142
Other investing activities, net	**(43)**	12
Cash used in investing activities	**(1,066)**	(912)
Financing Activities		
Debt issued (Note 2)	**400**	-
Debt repaid	**(387)**	(177)
Dividends paid to UPC	**(304)**	(272)
Intercompany payments	**(312)**	(257)
Other financing activities, net	**(1)**	86
Cash used in financing activities	**(604)**	(620)
Net change in cash and cash equivalents	**10**	(16)
Cash and cash equivalents at beginning of year	**461**	295
Cash and cash equivalents at end of period	**$ 471**	$ 279
Supplemental Cash Flow Information		
Non-cash investing and financing activities:		
Capital lease financings	**$ -**	$ 742
Capital investments accrued but not yet paid	**71**	62
Settlement of current liabilities for debt	**-**	14
Cash paid for:		
Interest, net of amounts capitalized	**$ (243)**	$ (195)
Income taxes, net of refunds	**(392)**	(75)

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

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

Condensed Consolidated Statements of Changes in Common Shareholders' Equity (Unaudited)
Union Pacific Railroad Company and Consolidated Subsidiary Companies

Millions of Dollars, Thousands of Shares	*Common Shares*	*Class A Shares*	*Common Shares*	*Paid-in-Surplus*	*Retained Earnings*	*AOCI [a]*	*Total*
Balance at December 31, 2008	4,465	388	$ -	$ 4,782	$ 13,952	$ (704)	$ 18,030
Cumulative effect of change in accounting principle (Note 3)			-	-	(132)	-	(132)
Balance at January 1, 2009	4,465	388	$ -	$ 4,782	$ 13,820	$ (704)	$ 17,898
Comprehensive income:							
Net income			-	-	893	-	893
Other comp. loss			-	-	-	(10)	(10)
Total comp. income/(loss) (Note 9)			-	-	893	(10)	883
Dividends declared	-	-	-	-	(272)	-	(272)
Balance at June 30, 2009	4,465	388	$ -	$ 4,782	$ 14,441	$ (714)	$ 18,509
Balance at December 31, 2009	4,465	388	$ -	$ 4,782	$ 15,424	$ (654)	$ 19,552
Cumulative effect of change in accounting principle (Note 3)			-	-	(140)	-	(140)
Balance at January 1, 2010	4,465	388	$ -	$ 4,782	$ 15,284	$ (654)	$ 19,412
Comprehensive income:							
Net income			-	-	1,284	-	1,284
Other comp. income			-	-	-	6	6
Total comp. income (Note 9)			-	-	1,284	6	1,290
Dividends declared	-	-	-	-	(304)	-	(304)
Balance at June 30, 2010	4,465	388	**$ -**	**$ 4,782**	**$ 16,264**	**$ (648)**	**$ 20,398**

[a] AOCI = Accumulated Other Comprehensive Income/(Loss) (See Note 9)

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

UNION PACIFIC RAILROAD COMPANY AND CONSOLIDATED SUBSIDIARY COMPANIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

1. Basis of Presentation – Union Pacific Railroad Company (the Company), a Class I railroad incorporated in Delaware and an indirect wholly-owned subsidiary of Union Pacific Corporation, together with a number of wholly-owned and majority owned subsidiaries, operates various railroad and railroad-related businesses. Our Condensed Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Our Consolidated Statement of Financial Position at December 31, 2009, is derived from audited financial statements. This Quarterly Report should be read in conjunction with our Consolidated Financial Statements and notes thereto contained in our 2009 Annual Report. The results of operations for the three and six months ended June 30, 2010, are not necessarily indicative of the results for the entire year ending December 31, 2010.

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

Subsequent Events Evaluation – We evaluated the effects of all subsequent events through August 20, 2010, the report issuance date.

2. Adoption of New Accounting Pronouncement – In June 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16, *Accounting for Transfers of Financial Assets* (ASU 2009-16). ASU 2009-16 limits the circumstances in which transferred financial assets can be derecognized and requires enhanced disclosures regarding transfers of financial assets and a transferor's continuing involvement with transferred financial assets. We adopted the authoritative accounting guidance on January 1, 2010. As a result, we no longer account for the value of the outstanding undivided interest held by investors under our receivables securitization facility as a sale. In addition, transfers of receivables occurring on or after January 1, 2010 are reflected as debt issued in our Condensed Consolidated Statements of Cash Flows and recognized as debt due after one year in our Condensed Consolidated Statements of Financial Position. See the discussion of our receivables securitization facility in Note 14.

3. Change in Accounting Principle – Effective January 1, 2010, we changed our accounting policy for rail grinding costs from a capitalization method, under which we capitalized the cost of rail grinding and depreciated such capitalized costs, to a direct expense method, under which we expense rail grinding costs as incurred. The expense as incurred method is preferable, as it eliminates the subjectivity in determining the period of benefit associated with rail grinding over which to depreciate the associated capitalized costs. This change was reflected as a change in accounting principle from an acceptable accounting principle to a preferable accounting principle. The application of the change in accounting principle is presented retrospectively to all periods presented.

The effects of the adjustments from 1992 (the year we started capitalizing rail grinding) to January 1, 2009 resulted in an adjustment to decrease net properties, deferred income taxes, and retained earnings by $213 million, $81 million, and $132 million, respectively.

The following tables show the effects of the change in our policy for rail grinding costs on the Condensed Consolidated Financial Statements:

Condensed Consolidated Statements of Income

	For the Three Months Ended June 30, 2010			*For the Three Months Ended June 30, 2009*		
Millions, Except Per Share Amounts	*Computed under Prior Method*	*Impact of Adjustment*	*As Reported*	*As Originally Reported*	*Impact of Adjustment*	*As Adjusted*
Purchased services & materials	$ 457	$ 8	$ 465	$ 386	$ 8	$ 394
Depreciation	$ 374	$ (6)	$ 368	$ 355	$ (5)	$ 350
Total operating expenses	$ 2,894	$ 2	$ 2,896	$ 2,545	$ 3	$ 2,548
Operating income	$ 1,279	$ (2)	$ 1,277	$ 751	$ (3)	$ 748
Income before income taxes	$ 1,183	$ (2)	$ 1,181	$ 791	$ (3)	$ 788
Income taxes	$ (448)	$ -	$ (448)	$ (289)	$ -	$ (289)
Net income	$ 735	$ (2)	$ 733	$ 502	$ (3)	$ 499

Condensed Consolidated Statements of Income

	For the Six Months Ended June 30, 2010			*For the Six Months Ended June 30, 2009*		
Millions, Except Per Share Amounts	*Computed under Prior Method*	*Impact of Adjustment*	*As Reported*	*As Originally Reported*	*Impact of Adjustment*	*As Adjusted*
Purchased services & materials	$ 877	$ 16	$ 893	$ 782	$ 13	$ 795
Depreciation	$ 744	$ (10)	$ 734	$ 700	$ (9)	$ 691
Total operating expenses	$ 5,860	$ 6	$ 5,866	$ 5,283	$ 4	$ 5,287
Operating income	$ 2,272	$ (6)	$ 2,266	$ 1,423	$ (4)	$ 1,419
Income before income taxes	$ 2,077	$ (6)	$ 2,071	$ 1,395	$ (4)	$ 1,391
Income taxes	$ 785	$ 2	$ 787	$ (499)	$ 1	$ (498)
Net income	$ 1,288	$ (4)	$ 1,284	$ 896	$ (3)	$ 893

Condensed Consolidated Statements of Financial Position

	June 30, 2010			*December 31, 2009*		
Millions	*Computed under Prior Method*	*Impact of Adjustment*	*As Reported*	*As Originally Reported*	*Impact of Adjustment*	*As Adjusted*
Net properties	$ 37,748	$ (232)	$ 37,516	$ 37,419	$ (226)	$ 37,193
Total assets	$ 41,699	$ (232)	$ 41,467	$ 40,796	$ (226)	$ 40,570
Deferred income taxes	$ 11,217	$ (88)	$ 11,129	$ 11,069	$ (86)	$ 10,983
Total liabilities	$ 21,157	$ (88)	$ 21,069	$ 21,244	$ (86)	$ 21,158
Retained earnings	$ 16,408	$ (144)	$ 16,264	$ 15,424	$ (140)	$ 15,284
Total common shareholders' equity	$ 20,542	$ (144)	$ 20,398	$ 19,552	$ (140)	$ 19,412
Total liabilities & common shareholders' equity	$ 41,699	$ (232)	$ 41,467	$ 40,796	$ (226)	$ 40,570

Condensed Consolidated Statements of Cash Flows

Millions	For the Six Months Ended June 30, 2010 Computed under Prior Method	Impact of Adjustment	As Reported	For the Six Months Ended June 30, 2009 As Originally Reported	Impact of Adjustment	As Adjusted
Net income	$ 1,288	$ (4)	$ 1,284	$ 896	$ (3)	$ 893
Depreciation	$ 744	$ (10)	$ 734	$ 700	$ (9)	$ 691
Deferred income taxes & unrecognized tax benefits	$ 123	$ (2)	$ 121	$ 212	$ (1)	$ 211
Cash provided by operating activities	$ 1,696	$ (16)	$ 1,680	$ 1,529	$ (13)	$ 1,516
Capital investments	$ (1,070)	$ 16	$ (1,054)	$ (1,079)	$ 13	$ (1,066)
Cash used in investing activities	$ (1,082)	$ 16	$ (1,066)	$ (925)	$ 13	$ (912)

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

Millions	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Agricultural	**$ 698**	$ 618	**$ 1,428**	$ 1,279
Automotive	**334**	163	**639**	325
Chemicals	**592**	499	**1,179**	1,012
Energy	**836**	715	**1,680**	1,522
Industrial Products	**692**	531	**1,290**	1,077
Intermodal	**804**	595	**1,495**	1,146
Total freight revenues	**3,956**	3,121	**7,711**	6,361
Other revenues	**217**	175	**421**	345
Total operating revenues	**$ 4,173**	$ 3,296	**$ 8,132**	$ 6,706

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

5. Stock-Based Compensation – We participate in the Corporation's stock incentive programs. The Corporation has several stock-based compensation plans under which employees receive stock options, nonvested retention shares, and nonvested stock units. We refer to the nonvested shares and stock units collectively as "retention awards". New shares are issued by UPC when nonvested retention shares vest. Information regarding stock-based compensation appears in the table below:

Millions	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Stock-based compensation, before tax:				
Stock options	**$ 3**	$ 3	**$ 6**	$ 6
Retention awards	**12**	7	**21**	13
Total stock-based compensation, before tax	**$ 15**	$ 10	**$ 27**	$ 19
Total stock-based compensation, after tax	**$ 10**	$ **6**	**$ 17**	$ **12**

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

Weighted-Average Assumptions, for the Six Months Ended June 30,	***2010***	*2009*
Risk-free interest rate	**2.4%**	1.9%
Dividend yield	**1.8%**	2.3%
Expected life (years)	**5.4**	5.1
Volatility	**35.2%**	31.3%
Weighted-average grant-date fair value of options granted	**$ 18.26**	$ 11.33

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

Stock options are granted at the closing price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at June 30, 2010 are subject to performance or market-based vesting conditions.

At June 30, 2010, there was $16 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.4 years. Additional information regarding stock option exercises appears in the table below:

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2010***	*2009*	***2010***	*2009*
Intrinsic value of stock options exercised	**$ 7**	$ -	**$ 18**	$ 1
UPC's tax benefit realized from option exercises	**3**	1	**7**	1
Aggregate grant-date fair value of stock options vested	**-**	-	**12**	20

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

Retention awards are granted at no cost to the employee and vest over periods lasting up to four years. At June 30, 2010, there was $69 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 2.2 years.

Performance Retention Awards – In February 2010, UPC's Board of Directors approved performance stock unit grants. Other than different performance targets, the basic terms of these performance stock units are identical to those granted in January 2008 and February 2009, including using annual return on invested capital (ROIC) of the Corporation as the performance measure. Additionally, a change was made in February 2009 to an underlying assumption used in connection with calculating a component of ROIC. As a result, a lower discount rate (an assumed interest rate) will be used in both the numerator and denominator when calculating the present value of future operating lease payments to reflect changes to interest rates and financing costs. This rate will be consistent with the methodology used to calculate the Corporation's adjusted debt-to-capital ratio. The Corporation used this new discount rate to calculate ROIC in connection with determining awards of performance stock units granted in 2009 and 2010. For performance stock units granted in 2008, the Corporation will continue calculating ROIC with the methodology and assumptions in effect when the performance stock units were granted.

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 the Corporation's 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 UPC 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 2010 grant were as follows:

	2010
UPC's dividend per share per quarter	$ 0.27
Risk-free interest rate at date of grant	1.3%

At June 30, 2010, there was $22 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 1.7 years. A portion of this expense is subject to achievement of the ROIC levels established for the performance stock unit grants.

6. Retirement Plans

Pension and Other Postretirement Benefits

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

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

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

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

	Three Months Ended June 30,		*Six Months Ended June 30,*	
Millions	***2010***	*2009*	***2010***	*2009*
Service cost	**$ 11**	$ 9	**$ 22**	$ 19
Interest cost	**35**	35	**70**	69
Expected return on plan assets	**(44)**	(41)	**(89)**	(81)
Amortization of:				
Prior service cost	**1**	1	**2**	3
Actuarial loss	**10**	7	**21**	13
Net periodic pension cost	**$ 13**	$ 11	**$ 26**	$ 23

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	***2010***	*2009*	***2010***	*2009*
Service cost	**$ -**	$ 1	**$ 1**	$ 2
Interest cost	**4**	7	**8**	13
Amortization of:				
Prior service (credit)	**(11)**	(8)	**(22)**	(17)
Actuarial loss	**4**	4	**7**	8
Net periodic OPEB cost/(benefit)	**$ (3)**	$ 4	**$ (6)**	$ 6

Cash Contributions – For the six months ended June 30, 2010, UPC has made $25 million of cash contributions to the qualified pension plan. On August 2, 2010, UPC made an additional cash contribution of $37.5 million to the qualified pension plan. Additional contributions made in the second half of the year will be based on cash generated from operations and financial market considerations. All contributions made to the qualified pension plan during the six months ended June 30, 2010 were voluntary and were made with cash generated from operations.

7. Other Income – Other income included the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
Millions	***2010***	*2009*	***2010***	*2009*
Rental income	**$ 21**	$ 19	**$ 41**	$ 39
Net gain on non-operating asset dispositions	**4**	126	**8**	132
Interest income	**4**	1	**5**	2
Receivable securitization fees [a]	**-**	(2)	**-**	(5)
Non-operating environmental costs and other	**(8)**	(10)	**(16)**	(12)
Total	**$ 21**	$ 134	**$ 38**	$ 156

[a] Receivable securitization fees totaling $1 million and $3 million for the three and six months ended June 30, 2010 are now classified as interest expense. See Note 2 and Note 14 for further discussion.

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

Internal Revenue Service (IRS) examinations have been completed and settled for all years prior to 1999, and the statute of limitations bars any additional tax assessments. Some interest calculations remain open back to 1986. The IRS has completed its examinations and issued notices of deficiency for tax years 1999 through 2006. UPC disagrees with many of their proposed adjustments, and UPC is at IRS Appeals for these years. The IRS is examining UPC's federal income tax returns for 2007 and 2008. Additionally, some of UPC's state income tax returns for 2003-2006 are under examination.

At June 30, 2010, our liability for unrecognized tax benefits was $181 million, of which we classified $4 million as current.

9. Comprehensive Income – Comprehensive income was as follows:

Millions	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (Adjusted)*	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (Adjusted)*
Net income	**$ 733**	$ 499	**$ 1,284**	$ 893
Other comprehensive income/(loss):				
Defined benefit plans	**1**	2	**4**	(11)
Foreign currency translation	**(1)**	14	**1**	1
Derivatives	**-**	-	**1**	-
Total other comprehensive income/(loss) [a]	**-**	16	**6**	(10)
Total comprehensive income	**$ 733**	$ 515	**$ 1,290**	$ 883

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

[a] *Net of deferred taxes of $0 million and $1 million during the three and six months ended June 30, 2010, respectively, and $10 million and $1 million during the three and six months ended June 30, 2009, respectively.*

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

Millions	Jun. 30, 2010	Dec. 31, 2009
Defined benefit plans	**$ (611)**	$ (615)
Foreign currency translation	**(34)**	(35)
Derivatives	**(3)**	(4)
Total	**$ (648)**	$ (654)

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

Millions, Except Percentages As of June 30, 2010	Cost	Accumulated Depreciation	Net Book Value	Depreciation Rate for 2010
Land	$ 4,895	$ N/A	$ 4,895	N/A
Road:				
Rail and other track material [a]	11,737	4,421	7,316	3.0%
Ties	7,448	1,821	5,627	2.8%
Ballast	3,926	902	3,024	3.0%
Other [b]	13,113	2,340	10,773	2.5%
Total road	36,224	9,484	26,740	2.8%
Equipment:				
Locomotives	6,135	2,590	3,545	5.6%
Freight cars	1,841	1,013	828	3.6%
Work equipment and other	195	36	159	4.3%
Total equipment	8,171	3,639	4,532	5.1%
Technology and other	520	211	309	13.3%
Construction in progress	1,040	-	1,040	N/A
Total	$ 50,850	$ 13,334	$ 37,516	N/A

[a] *Depreciation rate includes a weighted-average composite rate for rail in high-density traffic corridors.*

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

Millions, Except Percentages *As of December 31, 2009 (Adjusted)**	*Cost*	*Accumulated Depreciation*	*Net Book Value*	*Depreciation Rate for 2009*
Land	$ 4,887	$ N/A	$ 4,887	N/A
Road:				
Rail and other track material [a]	11,584	4,414	7,170	3.6%
Ties	7,254	1,767	5,487	2.7%
Ballast	3,841	869	2,972	2.9%
Other [b]	12,988	2,237	10,751	2.4%
Total road	35,667	9,287	26,380	2.9%
Equipment:				
Locomotives	6,156	2,470	3,686	5.0%
Freight cars	1,885	1,015	870	4.2%
Work equipment and other	168	32	136	3.6%
Total equipment	8,209	3,517	4,692	4.8%
Technology and other	467	199	268	12.1%
Construction in progress	966	-	966	N/A
Total	$ 50,196	$ 13,003	$ 37,193	N/A

* *Certain amounts have been adjusted for the retrospective change in accounting principle for rail grinding (See Note 3).*

[a] *Depreciation rate includes a weighted-average composite rate for rail in high-density traffic corridors.*

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

11. Accounts Payable and Other Current Liabilities

Millions	***Jun. 30, 2010***	*Dec. 31, 2009*
Accounts payable	**$ 701**	$ 605
Income and other taxes	**365**	224
Accrued wages and vacation	**343**	338
Accrued casualty costs	**313**	312
Equipment rents payable	**93**	89
Interest	**57**	65
Other	**403**	428
Total accounts payable and other current liabilities	**$ 2,275**	$ 2,061

12. Transactions With Affiliates – At June 30, 2010, we had a $211 million working capital surplus. At December 31, 2009, we had an $88 million working capital deficit. Our working capital relates to UPC's management of our cash position. As part of UPC's cash management activities, we advance excess cash (cash available after satisfying all of our obligations and paying dividends to UPC) to UPC. We declare and pay dividends to UPC that typically approximate the dividends UPC declares to its shareholders; however, there is no formal requirement to do so. The dividend declaration between us and UPC is determined solely by our Board of Directors. To the extent we require additional cash for use in our operations, UPC makes such funds available to us for borrowing. We treat these transactions as intercompany borrowings in the Condensed Consolidated Statements of Financial Position.

The majority of our intercompany borrowings from UPC relate to the acquisitions of the Chicago and North Western Transportation Company and Southern Pacific Rail Corporation that were funded by UPC on our behalf. We assumed these acquisition costs in the form of intercompany borrowings from UPC. In December 2008, the Corporation established a borrowing limit based on our borrowing capacity and implemented a market-based interest rate. Currently, the annual rate is 6.4%. The annual rate was 5.8% from December 2008 through June 2009. Interest accrues quarterly and is payable on demand. We do not expect to be required by UPC to pay back the intercompany borrowings within the next 12 months. Intercompany borrowings are unsecured and rank equally with all of our other unsecured indebtedness.

UPC provides us with various services, including strategic planning, legal, treasury, accounting, auditing, insurance, human resources, and corporate affairs. Pursuant to a services agreement, UPC provides services to us, and we pay our share of the costs as determined by an independent review. Billings for these services were $31 million and $23 million for the six months ended June 30, 2010 and 2009, respectively.

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 price movements.

Market and Credit Risk – We address market risk related to derivative financial instruments by selecting instruments with value fluctuations that highly correlate with the underlying hedged item. We manage credit risk related to derivative financial instruments, which is minimal, by requiring high credit standards for counterparties and periodic settlements. At June 30, 2010 and December 31, 2009, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

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

Interest Rate Cash Flow Hedges – We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At June 30, 2010 and December 31, 2009, we had reductions of $3 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, 2010 and December 31, 2009, we had no interest rate cash flow hedges outstanding.

14. Debt

Receivables Securitization Facility – As discussed in Note 2, we adopted new accounting guidance on January 1, 2010. As a result, we no longer account for the value of the outstanding undivided interest held by investors under our receivables securitization facility as a sale. In addition, transfers of receivables occurring on or after January 1, 2010 are reflected as debt issued in our Condensed Consolidated Statements of Cash Flows, and the value of the outstanding undivided interest held by investors at June 30, 2010 is accounted for as a secured borrowing and is included in our Condensed Consolidated Statements of Financial Position as debt due after one year.

Under the receivables securitization facility, we sell most of our 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, 2010 and December 31, 2009. The value of the outstanding undivided interest held by investors under the facility was $100 million and $400 million at June 30, 2010 and December 31, 2009, respectively. The value of the undivided interest held by investors was supported by $1,016 million and $817 million of accounts receivable at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010 and December 31, 2009, the value of the interest retained by UPRI was $1,016 million and $417 million, 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, 2010. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

We have been designated to service the sold receivables; however, we do not recognize any servicing asset or liability as the servicing fees adequately compensate us for these responsibilities. We collected approximately $4.0 billion and $3.2 billion during the three months ended June 30, 2010 and 2009, respectively, and $7.7 billion and $6.7 billion during the six months ended June 30, 2010 and 2009, 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 and $3 million for the three and six months ended June 30, 2010. Prior to adoption of the new accounting guidance, the costs of the receivables securitization facility were included in other income and were $2 million and $5 million for the three and six months ended June 30, 2009.

The investors have no recourse to our other assets except for customary warranty and indemnity claims. Our creditors do not have recourse to the assets of UPRI.

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) 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.

The Company is not considered to be the primary beneficiary and does not consolidate these VIEs because the Company's actions and decisions do not have the most significant effect on the VIE's performance and the Company's 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 $4.3 billion as of June 30, 2010.

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 discounted to present value using applicable U.S. Treasury rates. Approximately 87% of the recorded liability related to asserted claims, and approximately 13% related to unasserted claims at June 30, 2010. 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,	***2010***	*2009*
Beginning balance	**$ 544**	$ 620
Current year accruals	**82**	98
Change in estimates for prior years	**(56)**	(49)
Payments	**(109)**	(86)
Ending balance at June 30	**$ 461**	$ 583
Current portion, ending balance at June 30	**$ 156**	$ 185

For the three months ended June 30, 2010 and June 30, 2009, the personal injury liability was reduced by $40 million and $49 million, respectively, due to changes in estimates for prior years.

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

Our asbestos-related liability activity was as follows:

Millions, for the Six Months Ended June 30,	***2010***	*2009*
Beginning balance	**$ 174**	$ 213
Accruals	**-**	-
Payments	**(6)**	(5)
Ending balance at June 30	**$ 168**	$ 208
Current portion, ending balance at June 30	**$ 13**	$ 12

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, 2010 and December 31, 2009.

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

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We identified 294 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 31 sites that are the subject of actions taken by the U.S. government, 17 of which are currently on the Superfund National Priorities

List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When an environmental issue has been identified with respect to property owned, leased, or otherwise used in our business, we and our consultants perform environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and such costs can be reasonably estimated. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. At June 30, 2010, approximately 5% of our environmental liability was discounted at 3.4%, while approximately 12% of our environmental liability was discounted at 3.4% at December 31, 2009.

Our environmental liability activity was as follows:

Millions, for the Six Months Ended June 30,	***2010***	*2009*
Beginning balance	**$ 217**	$ 209
Accruals	**20**	13
Payments	**(18)**	(23)
Ending balance at June 30	**$ 219**	$ 199
Current portion, ending balance at June 30	**$ 82**	$ 59

The environmental liability includes future costs for remediation and restoration of sites, as well as ongoing monitoring costs, but excludes any anticipated recoveries from third parties. Cost estimates are based on information available for each site, financial viability of other potentially responsible parties, and existing technology, laws, and regulations. The ultimate liability for remediation is difficult to determine because of the number of potentially responsible parties, site-specific cost sharing arrangements with other potentially responsible parties, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and the speculative nature of remediation costs. Estimates of liability may vary over time due to changes in federal, state, and local laws governing environmental remediation. Current obligations are not expected to have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

Guarantees – At June 30, 2010, we were contingently liable for $374 million in guarantees. We have recorded a liability of $3 million for the fair value of these obligations as of both June 30, 2010, and December 31, 2009. 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.

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